

August 6, 2018

To  
The Secretary  
BSE Ltd.  
National Stock Exchange of India Ltd.


Dear Sir/Madam,

**Sub:** Annual Report for the financial year 2017-18

In furtherance to our letter dated July 4, 2018 and pursuant to Regulation 34 of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, please find enclosed herewith the Annual Report for the Financial Year 2017-18. This Annual Report was adopted by the shareholders at the 34<sup>th</sup> AGM of the Company held on July 27, 2018.

This is for your information and records.

With regards,

  
Sandeep Poddar  
Company Secretary

Encl: as above

**Good Health  
Can't Wait**





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## Our Promises

Our five promises clarify what we do, what we offer and the commitments we make to our stakeholders. Our patients trust our medicines. We focus our energies on renewing this trust every day. As we keep the interests of our patients at the center of all that we do, our promises drive us to reach higher levels of excellence.

Bringing expensive medicines within reach

Addressing unmet patient needs

Helping patients manage disease better

Working with partners to help them succeed

Enabling and helping our partners ensure that our medicines are available where needed

# Letter from the Chairman and Co-Chairman



## Dear Shareholder,

Let us begin with your company's performance in FY2018.

- **Consolidated revenues were at ₹ 142 billion, which was ~1% more compared to the previous year.**
- **Consolidated gross profit was ₹ 76.3 billion, or 2.6% less vis-à-vis the previous financial year.**
- **The gross profit margin was 53.7%, versus 55.6% in FY2017.**
- **EBITDA reduced to ₹ 24.1 billion, a fall of 5.5% compared to the previous year.**
- **Profit before taxes (PBT) was ₹ 14.3 billion, compared to ₹ 14.7 billion in the previous year.**
- **Profit after taxes (PAT) was ₹ 9.8 billion, versus ₹ 12 billion in FY2017.**

Frankly, these are disappointing results – especially coming after a financially difficult year in FY2017.

Last year, we described the reasons for your company's unfortunate performance as the consequence of a 'perfect storm' when a host of negative factors simultaneously came into play. We had then hoped that some of the dark clouds would disappear and make way for better performance in FY2018. Unfortunately, that has not happened. It is important to highlight the negative factors.

First, the US market, which accounts for 52% of your company's global generics sales and 42% of all sales, continued to witness further consolidation of sales channels, which has given the fewer big US buyers even greater pricing power. The negative price effects of substantial channel consolidation have been further aggravated by intense price competition among multiple suppliers for each generic product. Over the last three years, the average price decline for generic drugs in the USA has not only been high, but has also significantly increased in every passing year. Moreover, growing competition from various international suppliers has made it very difficult, if not impossible, to overcome the price fall by volume increases. These factors are not unique to Dr. Reddy's. They have negatively affected all major pharmaceutical companies exporting to the USA.

Second, we have been affected by regulatory interventions, especially from the USA. As you know, in November, 2015, the USFDA issued a warning letter regarding three plants: an API manufacturing facility at Miryalaguda (Telangana), another API plant at Srikakulam (Andhra Pradesh), and an oncology formulation manufacturing facility at Duvvada, near Visakhapatnam (Andhra Pradesh).

In consultation with international experts and the USFDA, your company has continuously worked on instituting corrective and preventive actions across

these three sites and has had follow-up meetings with the regulator. The USFDA re-inspected these facilities during February-April, 2017. Based on their observations, further corrective actions were undertaken, and such information was shared with the regulator. Post this inspection, Miryalaguda API manufacturing facility received an EIR indicating closure of the audit. However for the other two plants, there is no change in status vis-a-vis the USFDA.

Consequently, launches of key molecules, injectables, as well as certain APIs from these sites have been delayed. Although your company has successfully secured regulatory and customer approvals to transfer the production of some of these products to alternative facilities, the outcome has been a significant loss of revenue from the USA for both FY2017 and FY2018.

There was also a regulatory hiccup when the Federal Institute for Drugs and Medical Devices (BfArM) of Germany audited your company's formulation unit 2 (FTO-2) at Bachupally, Hyderabad (Telangana). This resulted in the good manufacturing practices (GMP) compliance certificate not being renewed in August, 2017. Corrective work was immediately undertaken. After a follow-up audit, the GMP non-compliance status was withdrawn in January, 2018. However, stoppage in sale to Europe for four months led to lesser revenues. Thankfully, this is over, and we expect to increase sales in FY2019.

Third, during India's transition to the GST regime from 1 July 2017, your company's performance was impacted due to reduction in channel inventory and absorption of higher tax on drugs that were not in the National List of Essential Medicines (NLEM). Moreover, price controls under India's drug price control orders affected revenue across selected products. As a result, sales performance in India was more muted than it should have been.

### WHERE DO WE GO FROM HERE?

Regarding pricing pressures in the USA, it is difficult to predict how long these trends will last. Instead, our task should be to overcome this reality. The only way of doing so is to have a strong pipeline of difficult-to-manufacture complex formulations that address key therapeutic needs – one that allows us to introduce several value-added products each year, so that each such launch steps-up revenues to combat the price erosion in those products that were brought to the market earlier.

Your company has such a pipeline. In FY2018, we filed 19 new abbreviated new drug applications (ANDAs) and one new drug application (NDA) under 505(b)(2) route with the USFDA. As of 31 March 2018, we had 110 generic filings pending approval from the USFDA, comprising 107 ANDAs and three new drug applications (NDAs) filed under the 505(b)(2) route of the US Federal Food, Drug and Cosmetic Act. Of these 107 ANDAs, 63 are Para IV applications – of which we believe 30 have 'First to File' status.

We have to match this robust pipeline by securing timely approvals from the USFDA and complement those with rapid ramp-up of production and delivery to the USA. We have to do this without fail, and with best-in-class cost of production. That is the way out.

As far as the USFDA regulatory hurdles go, your company remains fully committed to follow the highest standards of quality. We have significantly enhanced quality management systems and operations,

which include improvements in rigor of investigations and document control systems, standardization of instrument calibrations, strengthening shop-floor level IT controls as well as shop floor training programs, and simplifying and standardizing standard operating procedures and batch records. We have requested the USFDA to schedule an inspection of the oncology formulation manufacturing facility at Duvvada. Hopefully, the regulator will recognize the scale and scope of improvements undertaken at the facilities and give us the green light.

There exist significant opportunities in Emerging Markets, which are now on a longer-term upswing. We should be able to increase revenues from these geographies through greater sales of simple and complex generics as well as hospital and institutional sales of oncological biosimilars. There are also major prospects in key emerging markets for speciality generics and biosimilars, and your company will be doing its utmost to increase its market presence in these countries.

With the German regulatory problem behind us, we expect to increase our sales to that country as well as Romania. Moreover, having opened operations in France, Italy and Spain, we should be working on generating higher revenues from these countries, and to increase our market presence in Europe in the near future.

Relative to the competition that matters, we have underperformed in India. Your company now needs to put all its efforts in ensuring that it grows at least as fast as the market – ideally faster – and achieve the kind of double-digit growths that it attained in the past. This is doable. It needs totally focused effort by the team.

After three years of lacklustre performance, the pharmaceutical services and active ingredient (PSAI) business has turned around. We expect the business to now generate double-digit growth, as it has in the past, and it surely can.

Though small, the proprietary product (PP) business has done well. The two new products that were launched in FY2017 – ZEMBRACE™ SYMTOUCH™ (a 3 mg sumatriptan injection for acute migraine) and SERNIVO™ (a betamethasone dipropionate 0.05% spray to treat mild-to-moderate plaque psoriasis) have found market traction. In FY2018, the USFDA approved a third product, IMPOYZ™ (clobetasol propionate) cream. We expect to see greater revenues in the USA driven by these three products. Towards the end of the year we have filed our lead migraine candidate DFN-02 with the USFDA.

A positive upshot of the revenue crunch in FY2017 and FY2018, has been your company's attention to costs. From the beginning of FY2018 there has been a totally focused drive on eliminating needless layers and unnecessary costs. This will continue throughout FY2019 and thereafter, with the aim to create a leaner, internationally cost-competitive and more nimble organization.

Your company's management has accepted several challenging goals for FY2019. These involve better plant management; an unwavering focus on institutionalizing best-in-class manufacturing and quality practices; bringing about greater efficiency in R&D, product development, and speed-to-market for new products; driving hard to perform better in sales in the USA, Europe, India and the Emerging Markets; and maintaining a tight leash on costs.

We hope that these initiatives, backed by the resolve of each employee of your company, will deliver better results in FY2019. Because Dr. Reddy's and you, the shareholder, deserve it.

Thank you, as ever, for your goodwill and support.

With best regards,



**K Satish Reddy**  
Chairman



**G V Prasad**  
Co-Chairman and  
CEO

# Our Businesses

## GLOBAL GENERICS



- Revenue from the GG segment declined 1% to ₹ 114 billion.
- Revenue from North America declined 6% to ₹ 59.8 billion.
- Revenue from Emerging Markets increased 8% to ₹ 22.7 billion.
- Revenue from India grew by 1% to ₹ 23.3 billion.

### GLOBAL GENERICS

Global generics is our biggest business driver. We offer more than 200 high-quality generic drugs, keeping costs reasonable by leveraging our integrated operations. Our expertise in active ingredients, product development skills, a keen understanding of regulations and intellectual property rights, as well as our streamlined supply chain, makes us leaders in this segment.

### BIOLOGICS

Our biosimilars, generic equivalents of the innovator's biologics, offer affordable yet equally effective alternatives. Our product development capabilities and commercial reach have made us global leaders in this therapeutic area. We have four products in the market and an industry-leading pipeline spanning oncology, nephrology and auto-immune diseases.

## PHARMACEUTICAL SERVICES & ACTIVE INGREDIENTS



- Revenue from the PSAI segment increased by 3% to ₹ 22 billion.

### ACTIVE PHARMACEUTICALS INGREDIENTS

We are one of the world's largest manufacturers of Active Pharmaceutical Ingredients (APIs) and partner with several leading generic formulator companies in bringing their molecules first to the market. Our focus on innovation-led affordability gives our customers access to the most complex active ingredients, while maintaining a consistent global quality standard. Besides, our APIs development efforts enable our own generics business to be cost competitive and get to market faster.

### CUSTOM PHARMACEUTICAL SERVICES

Dr. Reddy's has one of the largest custom pharmaceutical services businesses in India. We offer end-to-end product development and manufacturing services and solutions to innovator companies. Further, our rich and extensive knowledge repository of various types of formulations helps shorten time to market and support lifecycle management.

## PROPRIETARY PRODUCTS & OTHERS



- Revenue from Proprietary Products and others was ₹ 6 billion, an increase of 46%.

### PROPRIETARY PRODUCTS

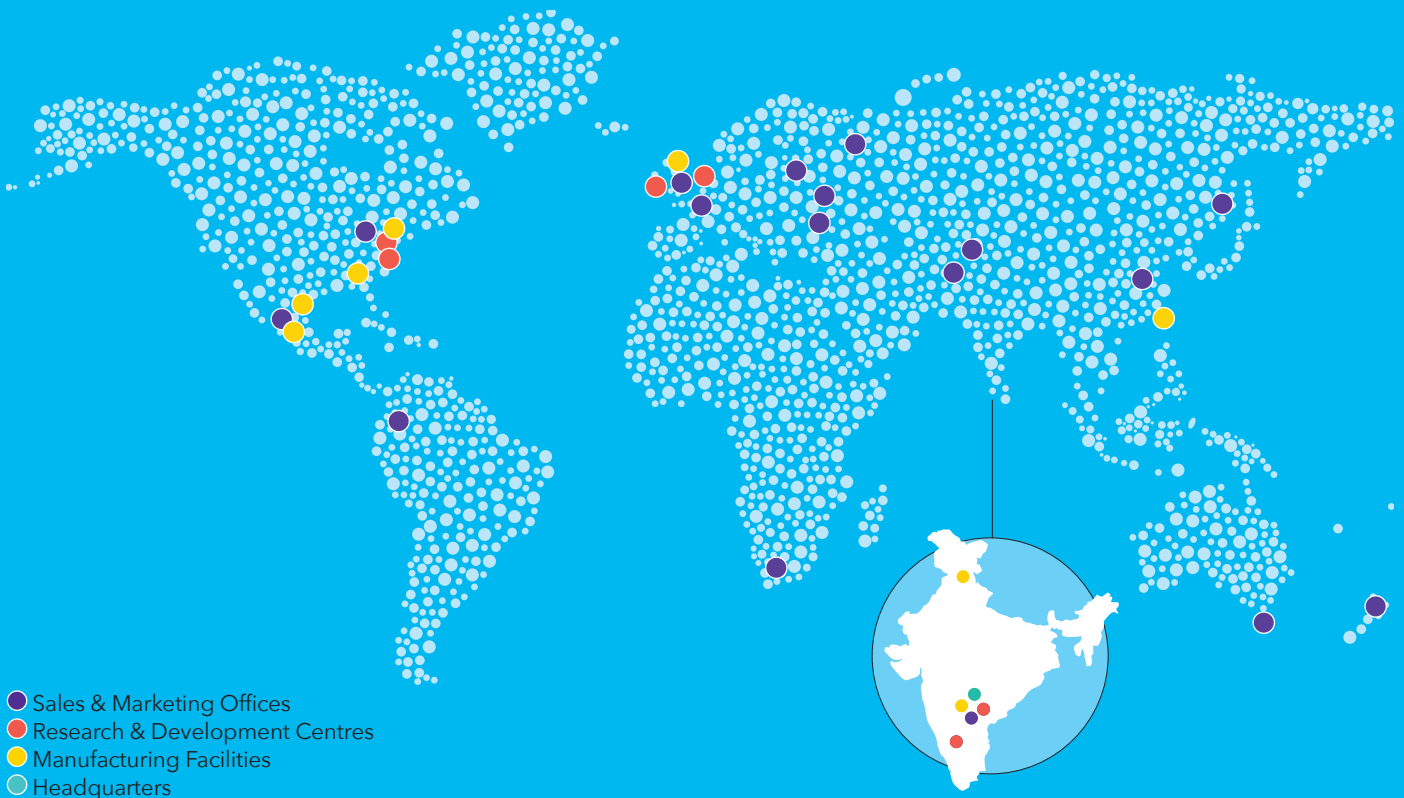
Our Proprietary Products business focuses on developing differentiated formulations that present significantly enhanced benefits in terms of efficacy, ease of use, and the resolution of unmet and under-met patient needs. The aim is to improve the patient's holistic experience with our medicines, so as to strengthen compliance with the therapeutic regimen and ensure positive outcomes.

**MORE THAN 200  
HIGH-QUALITY GENERIC DRUGS**

**ONE OF THE WORLD'S LARGEST  
MANUFACTURERS OF APIs**

**DIFFERENTIATED  
FORMULATIONS THAT PRESENT  
ENHANCED BENEFITS**

## GLOBAL PRESENCE



## FY2018 HIGHLIGHTS

**REVENUES**  
₹ 142 bn

**EBITDA**  
₹ 24.1 bn

**PROFIT AFTER TAX**  
₹ 9.8 bn

**DILUTED EPS**  
₹ 59

## FY2018 FILINGS AND LAUNCHES

**GENERIC FILINGS (19 ANDA FILINGS & 1 NDA FILING)**

As on 31 March 2018, 110 generic filings are pending for approval (107 ANDAs and 3 NDAs). Of these, 107 ANDAs, 63 are Para IV filings of which we believe 30 to have 'First-to-File' status.

**DMF FILINGS**

12 DMFs were filed in the US.

**139 NEW PRODUCTS**

139 new products were launched in FY2018, of which 15 are in NAG, 18 in Europe, 86 in Emerging Markets and 20 in India.

40  
NATIONALITIES

25  
COUNTRIES



# Key Performance Indicators

## REVENUES (₹ IN MILLION)

FY2018	<b>142,028</b>
FY2017	140,809
FY2016	154,708
FY2015	148,189
FY2014	132,170

## GROSS PROFIT (₹ IN MILLION)

FY2018	<b>76,304</b>
FY2017	78,356
FY2016	92,281
FY2015	85,403
FY2014	75,801

## EBITDA (₹ IN MILLION)

FY2018	<b>24,081</b>
FY2017	25,495
FY2016	36,252
FY2015	36,168
FY2014	33,180

## PBT (₹ IN MILLION)

FY2018	<b>14,341</b>
FY2017	14,653
FY2016	27,140
FY2015	28,163
FY2014	26,606

## PAT (₹ IN MILLION)

FY2018	<b>9,806</b>
FY2017	12,039
FY2016	20,013
FY2015	22,179
FY2014	21,512

## NET WORTH (₹ IN MILLION)

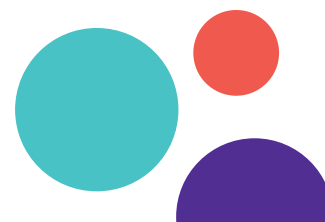
FY2018	<b>126,460</b>
FY2017	124,044
FY2016	128,336
FY2015	111,302
FY2014	90,801

## ROCE (%)

FY2018	<b>8.2</b>
FY2017	10.3
FY2016	22.4
FY2015	26.1
FY2014	28.2

## EPS (DILUTED)

FY2018	<b>59.0</b>
FY2017	72.1
FY2016	117.0
FY2015	129.7
FY2014	126.0



# Good Health Can't Wait

At Dr. Reddy's, we are driven by our purpose of accelerating access to innovative and affordable medicines because good health can't wait. We strive to do all it takes to reach the right medicines to patients, when and where they need them. The need for affordability, better disease management and higher efficacy are key priorities for us, and they guide our efforts across operations, supply chain, and R&D.

Patients are at the center of everything we do and the pivot around which our organizational strategy revolves. Our work around the world, be it in mature geographies or in the emerging ones, is geared towards addressing unmet patient needs and bringing expensive medicines within reach, while delivering high-quality and efficacious drugs. We dedicate ourselves to ensure on-shelf drug availability so that no patient is denied access to the treatment they need for their good health.





# Addressing the unmet needs of patients in India

At Dr. Reddy's, we are constantly looking for opportunities that allow us to bring expensive medicines within the reach of patients who need them. In India, it came in the way of a partnership we had entered into with Amgen, and this year, patients in India had access to treatment that was till date not available in the areas of oncology, osteoporosis, and cardiology

## REPATHA® - HELPING INDIAN PATIENTS BEAT CARDIAC DISEASE

India has a heavy burden of cardiac disease. According to current estimates, India will soon have the highest number of heart disease cases in the world. The Indian Heart Association stated that 50% of all heart attacks in Indians occur under 50 years of age and 25% of all heart attacks in Indians occur under 40 years of age. Managing cholesterol levels is key to controlling cardiac disease, and for the last three decades, statins have been the staple treatment globally. However, there are many patients for whom statins do not work adequately, even in the highest of doses. Their LDL-C (bad cholesterol) levels remain high, seriously affecting their quality of life.

The REPATHA® (evolocumab) injection, a monoclonal antibody, reduces LDL-C levels by a much wider margin in cases where statins such as atorvastatin and rozuvastatin simply have no effect, thus setting a new benchmark in lipid control.

## DENOSUMAB - CONVENIENT AND EFFICACIOUS MANAGEMENT OF BONE MASS

Often referred to as the "silent epidemic," osteoporosis is a global issue that is increasing in prevalence as the world's population increases and ages. Women are especially vulnerable. Osteoporosis makes the bones brittle, fragile, and highly prone to fractures, which can severely impair

the patient's mobility and quality of life. Around 25% of patients who sustain a hip fracture die within a year, and only less than half of those who survive regain their previous quality of life\*.

Conventionally, osteoporosis is treated using anabolics, which entails frequent injections, sometimes daily, making the treatment cumbersome. Denosumab, under the brand name PROLIA®, offers a relatively safer, more convenient and more efficacious alternative. Treatment is through a subcutaneous injection taken just once in six months. An article published by the New England Journal of Medicine states that during clinical trials, 40% of the women who were treated with PROLIA®, regained their normal Bone Mass Density and had healthy bones over a period of 8-10 years.

Denosumab, under the brand name XGEVA®, is used to treat cancer patients for whom the disease has spread to their bones. By efficiently increasing bone mass, it helps them manage their condition better, and enjoy a better quality of life.

**At Dr. Reddy's,  
we are constantly  
looking for  
opportunities that  
allow us to bring  
expensive medicines  
within the reach  
of patients who  
need them.**

\* Source: International Osteoporosis Foundation. The Asia-Pacific Regional Audit: Epidemiology, costs and burden of osteoporosis.

# Leveraging deep science for breaking new ground in cancer treatment

Cancer is one of the leading causes of death worldwide and claims more than 8 million lives in a year. Dr. Reddy's recognized the urgency to accelerate access to cancer patients in dire need of affordable medicines and has been building its capability for the war against cancer for more than a decade.


Immuno-oncology as a treatment has been evaluated for many years, but a big breakthrough in this area has happened only over the last few years. This approach to treating cancer, aims to stimulate the patient's immune system into fighting cancer, as opposed to chemotherapy, which cannot accurately differentiate between cancer cells and healthy cells. This led to high collateral cell damage, and traumatic side effects, besides limited curative ability. Immuno-oncology promises more accurate targeting of cancer cells, long durations of response, fewer side effects and is the cutting edge of cancer treatment. However, these drugs are prohibitively expensive and are largely unaffordable outside the developed markets.

Aurigene Discovery Technologies Limited, Dr. Reddy's wholly-owned subsidiary, has a dedicated program to discover and develop oral immune-oncology drugs. The first of these, CA 170, is in clinical development at this time. Aurigene has partnered with Curis Inc. to jointly develop CA 170 for the global markets. CA 170 brings some unique features to the table that potentially can provide several treatment benefits, otherwise unavailable to patients.

On approval, it will be the only orally administered drug in its class, which makes it much easier to administer. Patients can consume the medication at home, and don't need professional assistance as with injectable therapies. This also potentially makes it less expensive.

CA 170 is also the only drug that targets two different immune checkpoints: PD1 and VISTA. Most other drugs in this class focus only on PD1. The expectation with the drug is to see a higher response rate compared to the other PD1 drugs, as well as a more durable response, both of which are being evaluated. The drug is also being tested as a treatment for a wide range of cancers.

Another issue in cancer treatment is toxicity. This particularly occurs in combination treatments, where the multiple drugs used may enhance the overall toxicity to the patient. CA 170 is excreted from the body in less than 24 hours and would be easier to co-administer with other drugs compared to anti-bodies, which typically last 3-4 weeks in the body.



**Curis is currently running Phase 1 trials of CA 170 in the US, Europe and South Korea. Of evaluable patients in this trial, over 40% have seen stable disease. Aurigene is running Phase 2 trials of CA 170 in India. Over 25 patients have been recruited in this trial until mid-June, 2018.**





# Accelerating access to high-quality and affordable biosimilars

A biologic, or a biopharmaceutical, is a medicinal product that is manufactured in, or extracted from, a living system (plant, animal or microorganism). Diseases like cancer or autoimmune disorders such as rheumatoid arthritis often require the long term use of biologics. Effective as they are, biologics are also expensive and can place a significant cost burden on both the patient as well as the payer.

At Dr. Reddy's, we constantly strive to bring the most advanced medicines within the reach of millions around the world. Our continuous efforts to develop and market high-quality, equally effective, but significantly more affordable biosimilars\* over the past 15 years is a testament to this commitment.

Our biologics development capabilities have made us a leader in the relatively small, but fast-growing biosimilars industry with four biosimilar products marketed in several countries and an extensive pipeline under development. We have proven capabilities that span the therapeutic proteins, including glycosylated proteins, monoclonal antibodies, and pegylated proteins.

In several markets, where the originator's biologic is either unavailable or largely unaffordable, Dr. Reddy's has significantly expanded access to treatment through the introduction of its biosimilars. Since its inception over 400,000 patients have been treated using our biologics products.

In Peru for example, until 2008 the only rituximab available was from the originator. Since its launch in Peru in 2009, REDITUX® has helped more than 13,000 patients obtain access to rituximab therapy while significantly easing the burden on the country's healthcare system.

Similarly, in Sri Lanka, REDITUX® has helped increase patient access by 30 times since its launch in FY2011. Where in FY2011 a mere 10-20 patients per year were being treated, in FY2017, more than 800 patients did.

In Vietnam, patient access has more than doubled since the launch of REDITUX®. As against 300 patients in FY2014, more than 900 patients benefitted from rituximab treatment in FY2017.

CRESP®, Dr. Reddy's brand of darbepoetin alfa, was first launched in India in 2010, with the objective of offering a convenient and affordable treatment regimen for anemia management in chronic kidney disease (CKD) patients and as supportive care for patients who develop anemia as a result of myelosuppressive chemotherapy in non-myeloid malignancies. The originator product remains unavailable in India. The availability of CRESP® in India has provided patients and physicians access to the multiple benefits of using darbepoetin alfa such as fewer injections and hence, convenience of use towards anemia management. Over the last 8 years, CRESP® has helped increase patient access to darbepoetin and has been administered to more than 75,000 patients.

In the future, biologics will continue to play an increasingly crucial role in healthcare as new therapies are innovated. At Dr. Reddy's we will stay focused on our quest to develop high-quality and affordable alternatives and take them to patients who need them the most.

**Our biologics development capabilities have made us a leader in the relatively small, but fast-growing biosimilars industry with four biosimilar products marketed in several countries and an extensive pipeline under development.**

\* The term biosimilar product is used by the United States Food and Drug Administration (USFDA), and defines biosimilarity to mean that the biological product is highly similar to the reference product notwithstanding minor differences in clinically inactive components and that there are no clinically meaningful differences between the biological product and the reference product in terms of the safety, purity, and potency of the product. Regional Audit: Epidemiology, costs and burden of osteoporosis.



# Ensuring drug availability for patients in the US

Three of the products launched in the US last year illustrate our commitment towards ensuring that life-saving medicines are available where needed.

## **EZETIMIBE AND SIMVASTATIN TABLETS**

According to the Centers for Disease Control and Prevention, nearly 1 in 3 American adults has high cholesterol, putting them at risk for heart disease and stroke, two leading causes of death in North America. Ezetimibe and Simvastatin Tablet is a combination indicated for cholesterol management. Providing access to an affordable alternative to the innovator drug was an important mission for Dr. Reddy's.

Dr. Reddy's, having acquired the Abbreviated New Drug Application (ANDA) from TEVA in 2016, worked on the challenge of launching the generic product on the first day of USFDA approval. Because there were fewer generic alternatives on the market on day one, the demand for the product was significantly increased. Dr. Reddy's addressed the challenge of meeting the increased demand by actioning a ramp-up plan. This included collaborating efficiently with the external manufacturing partner to be able to service the upsurge within highly accelerated timelines. We were able to meet almost twice the market demand than what we had originally forecast and patients did not have to face the challenge of getting access to affordable generic products that could significantly impact their lives.

## **DOXORUBICIN HYDROCHLORIDE LIPOSOME INJECTION**


Patients suffering from ovarian cancer and AIDS related kaposi sarcoma, who no longer respond to chemotherapy with other drugs, may gain an extended lease of life if treated with Doxorubicin Hydrochloride Liposome Injection. However, the constrained supply of the drug in the market led to limited access, which also made the drug much more expensive for critically ill patients. We identified and collaborated with a partner whose capabilities complemented ours and secured the USFDA approval for this complex drug that is not easy to manufacture.

The challenges, however, did not end there. This was our first product that needed cold-chain shipping. Our Supply Chain team responded with agility, mastering the complexities of cold-chain shipping in record time. We won our first five-year award from one of the largest group purchasing organizations for hospitals in North America and closed a deal with a leading pharmaceutical distribution company in the country. At every step, we acted quickly to get this generic oncology product in the hands of hospitals for cancer patients in need.

## **SEVELAMER CARBONATE**

Sevelamer carbonate is used by kidney dialysis clinics across the US. The drug is a crucial element of treatment for dialysis patients. The regulatory group at Dr. Reddy's worked closely with the USFDA and ensured that Dr. Reddy's was among the first few companies to receive an approval for the generic product in the first wave, thus addressing the urgent need to launch the product faster in the market.

What makes this launch even more significant is the fact that Dr. Reddy's launched the product despite an initial shortage in the supply of the product's active pharmaceutical ingredient (API). Our Supply and Logistics teams secured a significant quantity of the API that would make up for the anticipated scarcity. Through close-knit teamwork, we successfully met the urgent need for the generic alternative of sevelamer carbonate, and yet again proved our commitment to provide patients with affordable alternatives to critical drugs.



**The three products launched in the US last year illustrated our commitment towards ensuring that life-saving medicines are available where needed.**



# Board of Directors



**K Satish Reddy**  
Chairman

Mr. K Satish Reddy joined the Company in 1993 as Executive Director and since then has held positions of increasing responsibility as Managing Director in 1997 and Vice-Chairman & Managing Director in 2013. Mr. Reddy led the Company's transition from a uni-focused manufacturer of Active Pharmaceutical Ingredients (APIs) to a company that moved up the value chain with a diverse product portfolio of finished dosage formulations. He oversaw the expansion and the establishment of a strong footprint for Dr. Reddy's finished dosage products in Russia, CIS countries and other emerging markets. Keeping true to the legacy of the founder of the Company, Dr. Anji Reddy, Mr. K Satish Reddy drives the Company's Corporate Social Responsibility initiatives. Mr. Reddy holds a degree in Chemical Engineering from Osmania University, Hyderabad and a Masters in Medicinal Chemistry from Purdue University, USA.



**G V Prasad**  
Co-Chairman, Managing Director and Chief Executive Officer

Mr. Prasad leads the core team at Dr. Reddy's that has contributed significantly to its transformation from a mid-sized domestic operation into a global pharmaceutical major. He is the architect of Dr. Reddy's successful Global Generics and Active Pharmaceutical Ingredient (API) strategies, as well as the Company's foray into biosimilars and differentiated formulations. Mr. Prasad is engaged with strengthening the Company's research and development capabilities, supporting progressive people practices and building a holistic culture of operational excellence. He was listed in the prestigious 'Medicine Maker 2018 Power List' of most inspirational professionals shaping the future of drug development, and one of 'India's Greatest 50 CEOs Ever' by Outlook. Mr. 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.



## DR. REDDY'S BOARD LEVEL COMMITTEES

- Committee membership
- Committee chairmanship

- C1 Audit committee
- C2 Nomination, governance and compensation committee
- C3 Science, technology and operations committee
- C4 Risk management committee
- C5 Stakeholders' relationship committee
- C6 Corporate social responsibility committee
- C7 Banking and authorisations committee



### Anupam Puri

Independent Director

Mr. Anupam Puri was associated with McKinsey & Company till 2002. He 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, and the Company's wholly-owned subsidiary, Dr. Reddy's Laboratories Inc., USA. Mr. Puri holds an M.Phil. in Economics from Nuffield College, Oxford University, UK, an M.A. in Economics from Balliol College, Oxford University; and a B.A. in Economics from Delhi University, India.



### Bharat N Doshi

Independent Director

Mr. Bharat N Doshi, is a former Executive Director and Group CFO of Mahindra & Mahindra Limited. He was also the Chairman of Mahindra & Mahindra Financial Services Limited since April 2008, and he stepped down from this position on his nomination as Director on the Central Board of Directors of the Reserve Bank of India in March, 2016. He is the Chairman of Mahindra Intertrade Limited and a Director on the Board of Mahindra Holdings Limited. He is also an Independent Director of Godrej Consumer Products Limited. He also serves on the Advisory Board of Excellence Enablers, an organization committed to promoting corporate governance in India. Mr. Doshi is a Fellow Member of the Institute of Chartered Accountants of India and the Institute of Company Secretaries of India and holds a Masters' degree in Law from Mumbai University. He is an alumnus of Harvard Business School (PMD) and Fellow of the Salzburg Seminar on 'Asian Economies: Regional and Global Relationships'.



### Dr. Bruce LA Carter

Independent Director

Dr. Bruce LA Carter was the Chairman of the Board and Chief Executive Officer of ZymoGenetics Inc., USA. He has also served as the Corporate Executive Vice President and Chief Scientific Officer for Novo Nordisk A/S. 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 also on the Board of Enanta Pharmaceutical Inc., Mirati Therapeutics Inc., Accelerator Corporation and TB Alliance, all in the US and our wholly-owned subsidiary, Aurigene Discovery Technologies Ltd., in India. 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.



## Board of Directors



**Hans Peter Hasler\***  
Independent Director

Mr. Hans Peter Hasler is the Principal of HPH Management GmbH, Küssnacht, Switzerland, the Chairman of HBM Healthcare Investments AG in Zug since June 2009, and Founder of Vicarius Pharma Limited AG, in Switzerland. He is also the Chairman of the Board of Medical Imaging Analysis Center (MIAC) of the University Hospital, Basel, a non-profit organization, since December, 2012 and a Director on the Board of Minerva Neuro Sciences and our wholly-owned subsidiary, Dr. Reddy's Laboratories S.A., in Switzerland. Mr. Hasler holds a Federal Swiss Commercial Diploma from Canton of Bern, Switzerland (Kaufmann) and Diploma in Business Management from Swiss Institute of Business, Zurich. Mr. Hasler is an experienced Pharma and Biotech Executive and has an international track record and in-depth operational, commercial and general management expertise. He also acts as top-level advisor to the life-science industry. In his career, he has managed the growth of leading players in the pharmaceutical industry and successfully launched several blockbuster drugs.

C3 C4



**Kalpana Morparia**  
Independent Director

Ms. Kalpana Morparia is the Chief Executive Officer of J.P. Morgan, South and Southeast Asia. Ms. Morparia is a member of J.P. Morgan's Asia Pacific Management Committee. Prior to joining J.P. Morgan India, Ms. Morparia served as Vice Chair on the Boards of ICICI Group Companies and was the Joint Managing Director of ICICI Group from 2001 to 2007. She has been recognized by several international and national media for her role as one of the leading women professionals. She serves as an Independent Director on the Boards of Philip Morris International Inc., USA, Hindustan Unilever Limited and as a Non-Executive Director on J.P. Morgan Services India Private Limited. She is also a Member of the Governing Board of Bharti Foundation. She is a graduate in science and law from Mumbai University.

C3 C5

### DR. REDDY'S BOARD LEVEL COMMITTEES

- Committee membership
- Committee chairmanship

- C1 Audit committee
- C2 Nomination, governance and compensation committee
- C3 Science, technology and operations committee
- C4 Risk management committee
- C5 Stakeholders' relationship committee
- C6 Corporate social responsibility committee
- C7 Banking and authorisations committee

\* Resigned with effect from 14 June 2018.



**Dr. Omkar Goswami**  
Independent Director

Dr. Omkar Goswami is the Founder and Chairman of CERG Advisory Private Ltd., a consulting and advisory firm. He did his Masters in Economics from the Delhi School of Economics and his D. Phil. (Ph. D.) from Oxford University. Dr. Goswami taught and researched Economics for 18 years at reputed institutions in India and abroad. Later, he became the Editor of Business India and the Chief Economist of Confederation of India Industry. In FY2018, he also served as a Director on the Boards of CG Power and Industrial Solutions Ltd., Ambuja Cements Ltd., DSP Black Rock Investment Managers Private Ltd., Godrej Consumer Products Ltd., Bajaj Finance Ltd., Max Healthcare Institute Ltd., Hindustan Construction Company Ltd., and Bajaj Auto Ltd.



**Prasad R Menon**  
Independent Director

Mr. Prasad R Menon is a former Managing Director of Tata Chemicals Ltd. and Tata Power Company Ltd. He has over 40 years of diverse experience in some of the premier multinational and Indian companies in the chemical and power industry. Earlier, he was Director Technical of Nagarjuna Fertilisers and Chemicals Limited. Mr. Menon also holds directorship in Axis Bank Ltd., SKF India Ltd., Tata Foundation in India, Singapore Tourism Board and Sanmar Group Advisory Board. He holds a chemical engineer degree from the Indian Institute of Technology (IIT), Kharagpur.



**Sridar Iyengar**  
Independent Director

Mr. Sridar Iyengar is an independent mentor investor in early stage start-ups and companies. Earlier, he was a senior partner with KPMG in the US and UK and also served as the Chairman & CEO of KPMG's operations in India. Mr. Iyengar also holds directorship in Mahindra Holidays and Resorts India Ltd., CL Educate Ltd., ICICI Venture Funds Management Company Ltd., Cleartrip Private Ltd., CL Media Private Limited in India; AverQ Inc. in the US; Cleartrip Inc. in Cayman Islands; Holiday Club Resorts OY in Finland and our wholly-owned subsidiary, Dr. Reddy's Laboratories S.A., in Switzerland. He holds a B.Com. (Hons.) degree from the University of Calcutta and is a Fellow of the Institute of Chartered Accountants in England and Wales.



# Management Council



Standing (Left to Right)

Dr. Amit Biswas | Dr. KVS Ram Rao | Alok Sonig | Sauri Gudlavalleti | Ganadhis Kamat | M V Ramana | Sanjay Sharma | Yugandhar Puvvala | Dr. Cartikeya Reddy

Sitting (Left to Right)

Anil Namboodiripad | Archana Bhaskar | K Satish Reddy | G V Prasad | Erez Israeli | Saumen Chakraborty

**K Satish Reddy**

Chairman

Age 51 | B.Tech., M.S. (Medicinal Chemistry)  
 Joined the company on 18 January 1993

**G V Prasad**

Co-Chairman, Managing Director and Chief Executive Officer

Age 58 | B.Sc. (Chem. Eng.), M.S. (Incl. Admn.)  
 Joined the company on 30 June 1990

**Alok Sonig**

Chief Executive Officer, Developed Markets (US, EU and Japan)

Age 46 | B.E., MBA  
 Joined the company on 11 June 2012

**Archana Bhaskar**

Chief Human Resource Officer

Age 51 | MBA  
 Joined the company on 15 June 2017

**Dr. Amit Biswas\***

Executive Vice President and Head, Integrated Product Development Organization (IPDO)

Age 58 | B.Tech. (Chem.), Masters (Polymer Science),  
 Ph.D.  
 Joined the company on 12 July 2011

**Dr. Anil Namboodiripad**

Senior Vice President and Head, Proprietary Products and Head, Promius Pharma

Age 52 | Ph.D. Physiology and Molecular  
 Biophysics  
 Joined the Company on 17 September 2007

**Dr. Cartikeya Reddy**

Executive Vice President and Head, Biologics

Age 48 | B.Tech., M.S., Ph.D.  
 Joined the company on 20 July 2004

**Dr. K V S Ram Rao**

Senior Vice President and Business Head, PSAI Commercial Organization

Age 55 | B.Tech., M.E., Ph.D. (Chem. Engg.)  
 Joined the company on 3 April 2000

**Dr. Raymond De Vré**

Senior Vice President, Biologics

Age 50 | Ph.D. in Applied Physics  
 Joined the company on 30 July 2012

**Erez Israeli**

Chief Operating Officer and Global Head, Generics and PSAI

Age 51 | MBA  
 Joined the company on 2 April 2018

**Ganadhish Kamat**

Executive Vice President and Global Head, Quality

Age 55 | M.Pharm., Diploma in Business  
 Management  
 Joined the company on 18 April 2016

**M V Ramana**

Chief Executive Officer and Head, Branded Markets (India and Emerging Countries)

Age 50 | MBA  
 Joined the company on 15 October 1992

**Sanjay Sharma**

Executive Vice President and Head, Global Manufacturing Operations

Age 50 | B. Tech. (Chemical Engineering)  
 Joined the company on 1 August 2017

**Saumen Chakraborty**

President, Chief Financial Officer and Global Head, IT and BPE

Age 57 | B.Sc.(H), MBA  
 Joined the company on 2 July 2001

**Sauri Gudlavalleti**

Senior Vice President and Head, Integrated Product Development Organization (IPDO)

Age 40 | B. Tech. (Mechanical Engineering),  
 Masters in Mechanics and MBA  
 Joined the company on 16 March 2015

**Yugandhar Puvvala**

Senior Vice President and Head, Global Supply Chain

Age 47 | MBA  
 Joined the company in 21 February 2001

\* Retired with effect from 30 June 2018.



# Business Responsibility Report

At Dr. Reddy's we remain cognizant of the needs of patients while creating healthy ecosystems and strong communities. Our stakeholders have ethical, social and environmental expectations from the organization that extend beyond financial goals and legal requirements. Therefore, we engage with them consistently to nurture trust and ensure business sustainability



**Disclosures on the nine principles as charted by the Ministry of Corporate Affairs in the 'National Voluntary Guidelines (NVGs) on Social, Environmental and Economic Responsibilities of Business'**



**PRINCIPLE 1  
ETHICS, TRANSPARENCY  
& ACCOUNTABILITY**

Businesses should conduct and govern themselves with ethics, transparency and accountability.



**PRINCIPLE 2  
PRODUCT LIFE CYCLE  
SUSTAINABILITY**

Businesses should provide goods and services that are safe and contribute to sustainability throughout their lifecycle.



**PRINCIPLE 3  
EMPLOYEE WELL-BEING**

Businesses should promote the well-being of all employees.



**PRINCIPLE 4  
STAKEHOLDER  
ENGAGEMENT**

Businesses should respect the interests of and be responsive towards all stakeholders, especially those who are disadvantaged, vulnerable and marginalised.



**PRINCIPLE 5  
HUMAN RIGHTS**

Businesses should respect and promote human rights.



**PRINCIPLE 6  
ENVIRONMENT**

Businesses should respect, protect and make efforts to restore the environment.



**PRINCIPLE 7  
POLICY  
ADVOCACY**

Businesses, when engaged in influencing public regulatory policy, should do so in a responsible manner.



**PRINCIPLE 8  
EQUITABLE  
DEVELOPMENT**

Businesses should support inclusive growth and equitable development.



**PRINCIPLE 9  
CUSTOMER  
VALUE**

Businesses should engage with and provide value to their customers and consumers in a responsible manner.

## SECTION A GENERAL INFORMATION ABOUT THE COMPANY

### CORPORATE IDENTITY NUMBER (CIN) OF THE COMPANY

L85195TG1984PLC004507

### NAME OF THE COMPANY

Dr. Reddy's Laboratories Limited

### REGISTERED ADDRESS

8-2-337, Road No. 3, Banjara Hills,  
Hyderabad 500 034, India

### WEBSITE

www.drreddys.com

### E-MAIL ID

shares@drreddys.com

### FINANCIAL YEAR REPORTED

April 2017 to March 2018

### SECTOR(S) THAT THE COMPANY IS ENGAGED IN (INDUSTRIAL ACTIVITY CODE-WISE)

Pharmaceuticals

### LIST THREE KEY PRODUCTS/ SERVICES THAT THE COMPANY MANUFACTURES/PROVIDES (AS IN BALANCE SHEET)

Decitabine, Omeprazole and OTC Habitrol

### TOTAL NUMBER OF LOCATIONS WHERE BUSINESS ACTIVITY IS UNDERTAKEN BY THE COMPANY

Our manufacturing, sales and marketing operations span over 25 countries. We also serve API customers globally.

#### (A) Number of international locations (Provide details of major 5):

We have manufacturing facilities in Tennessee, New York, Louisiana (USA), Mirfield (UK), Mexico and two development centres in Cambridge (UK) and Leiden (The Netherlands). Refer page no. 76

#### (B) Number of national locations

We have 18 manufacturing units, 4 R&D units, 2 technology development centres in India. Refer page no. 75

### MARKETS SERVED BY THE COMPANY - LOCAL/STATE/NATIONAL/ INTERNATIONAL

Our major markets include United States of America (USA), India, Russia, CIS regions and Europe.

We also reach out to patients in various other markets like South Africa, Australia, Jamaica, New Zealand, Brazil, China and Association of Southeast Asian Nations (ASEAN) countries.

## SECTION B FINANCIAL DETAILS OF THE COMPANY (AS ON 31 MARCH 2018)

### PAID-UP CAPITAL (₹)

830 million

### TOTAL TURNOVER FROM OPERATIONS (STANDALONE) (₹)

93,593 million

### TOTAL PROFIT AFTER TAX (₹)

5,669 million

### TOTAL SPENDING ON CORPORATE SOCIAL RESPONSIBILITY (CSR) AS PERCENTAGE OF PROFIT AFTER TAX (%)

5.79%

### LIST OF ACTIVITIES IN WHICH EXPENDITURE ABOVE HAS BEEN INCURRED

Refer to Principle 8 on page no. 32

## SECTION C OTHER DETAILS

### DOES THE COMPANY HAVE ANY SUBSIDIARY COMPANY/COMPANIES?

Yes

### DO THE SUBSIDIARY COMPANY/ COMPANIES PARTICIPATE IN THE BR INITIATIVES OF THE PARENT COMPANY? IF YES, THEN INDICATE THE NUMBER OF SUCH SUBSIDIARY COMPANY(S).

Our subsidiary companies are closely integrated with our corporate BR initiatives.

### DO ANY OTHER ENTITY/ENTITIES (E.G. SUPPLIERS, DISTRIBUTORS ETC.) THAT THE COMPANY DOES BUSINESS WITH, PARTICIPATE IN THE BR INITIATIVES OF THE COMPANY? IF YES, THEN INDICATE THE PERCENTAGE OF SUCH ENTITY/ENTITIES?

Yes. We have a code of conduct for partners, which we expect them to follow. For more details, please refer to: [www.drreddys.com/media/pdf/Supplier\\_CodeofConduct.pdf](http://www.drreddys.com/media/pdf/Supplier_CodeofConduct.pdf)

## SECTION D BR INFORMATION

### (A) Details of the Director responsible for implementation of the BR policy/policies

Mr. K Satish Reddy  
Chairman  
DIN: 00129701

### (B) Details of the BR Head

Mr. Alok Mehrotra  
Vice-President & Head,  
EHS, Sustainability and Operations  
Excellence  
Tel: +91-40-4900-2339  
E-mail ID: [alokm@drreddys.com](mailto:alokm@drreddys.com)  
DIN: Not applicable

### (C) Indicate the frequency with which the Board of Directors, Committee of the Board or CEO meets to assess the BR performance of the company

3-6 months

### (D) Does the company publish a BR or a Sustainability Report? What is the hyperlink for viewing this report? How frequently it is published?

Yes, the company publishes both a BR and a sustainability report. The sustainability report can be viewed at: [www.drreddys.com/our-citizenship/sustainability.aspx](http://www.drreddys.com/our-citizenship/sustainability.aspx)  
The BR can be viewed as part of the annual report. They are published annually.

**TABLE 1 PRINCIPLE-WISE (AS PER NVGS) BR POLICY/POLICIES (REPLY IN Y/N)**

SL. NO.	P1 PRINCIPLE-WISE (AS PER NVGS) BR POLICY/POLICIES AND ACCOUNTABILITY (REPLY IN Y/N)	P2 ETHICS, TRANSPARENCY AND ACCOUNTABILITY	P3 PRODUCT LIFE CYCLE SUSTAINABILITY	P4 EMPLOYEE WELL-BEING	P5 STAKEHOLDER ENGAGEMENT	P6 HUMAN RIGHTS	P7 ENVIRONMENT	P8 POLICY ADVOCACY	P9 EQUITABLE DEVELOPMENT	CUSTOMER VALUE
1	Do you have a policy/policies for....	Yes	Yes	Yes	Yes	We comply with all the statutory requirements. All the contracts and standing orders include relevant aspects of human rights.	Yes	Yes	Yes	Yes
2	Has the policy been formulated in consultation with the relevant stakeholders?	Yes	Yes	Yes	Yes	All the standing orders are co-signed by the recognized union.	Yes	Yes	Yes	Yes
3	Does the policy conform to any national/international standards? If yes, specify? (50 words)	We have adopted a code of business conduct and ethics (COBE) which conforms to national and international standards. This applies to all the directors and employees across the group.	We abide by all laws of the land and are a signatory to the 10 principles of the UN Global Compact. We take into account industry best practices and global benchmarks in defining our policies.	Yes we conform to the required labor laws in each country. Apart from that, we continuously benchmark our policies with competition in different markets and review them as needed.	We abide by all laws of the land and are a signatory to the 10 principles of the UN Global Compact. We take into account industry best practices and global benchmarks in defining our policies.	Yes, the policy conforms to national standards pertinent to human rights.	Yes, the policy is in line with national standards.	Yes, the policy is in line with national standards.	Yes, the policy is in line with national standards.	We abide by all laws of the land and are a signatory to the 10 principles of the UN Global Compact. We take into account industry best practices and global benchmarks in defining our policies.
4	Has the policy been approved by the board? If yes, has it been signed by MD/owner/CEO/appropriate board director?	Yes, it has been approved by the board and/or appropriately authorized.	Statutory policies are placed before the board for consideration and approval. All other policies are approved by CEO/MD.	Policies in India are approved by CHRO and international policies by CEO/MD. The management council (MC) and relevant stakeholders are consulted.	Statutory policies are placed before the board for consideration and approval. All other policies are approved by CEO/MD.	Policies in India are approved by CHRO and international policies by CEO/MD. The MC stakeholders are consulted.	Yes	Not applicable	Yes	Statutory policies are placed before the board for consideration and approval. All other policies are approved by CEO/MD.
5	Does the company have a specified committee of the board/director/official to oversee the implementation of the policy?	Yes	The responsibility for the implementation of policies and their review primarily lies with the respective business/function head.	All policy changes are discussed in HR leadership team meeting. The MC and relevant stakeholders are consulted before taking it for approval.	The responsibility for the implementation of policies and their review primarily lies with the respective business/function head.	NA	Yes	Yes	Yes	The responsibility for the implementation of policies and their review primarily lies with the respective business/function head.
6	Indicate the link for the policy to be viewed online?	www.drreddys.com/investors/governance/code-of-business-conduct-and-ethics-cobe.aspx	www.drreddys.com/media/636787/dr-reddys-she-policy-board.pdf	NA	www.drreddys.com/media/636787/dr-reddys-she-policy-board.pdf	www.drreddys.com/investors/governance/code-of-business-conduct-and-ethics-cobe.aspx	www.drreddys.com/media/636787/dr-reddys-she-policy-board.pdf	www.drreddys.com/media/125014/csr-policy.html	www.drreddys.com/media/636787/dr-reddys-she-policy-board.pdf	

**TABLE 1 PRINCIPLE-WISE (AS PER NVGS) BR POLICY/POLICIES (REPLY IN Y/N)**

SL. NO.	PRINCIPLE-WISE (AS PER NVGS) BR POLICY/POLICIES (REPLY IN Y/N)	P1 ETHICS, TRANSPARENCY AND ACCOUNTABILITY	P2 PRODUCT LIFE CYCLE SUSTAINABILITY	P3 EMPLOYEE WELL-BEING	P4 STAKEHOLDER ENGAGEMENT	P5 HUMAN RIGHTS	P6 ENVIRONMENT	P7 POLICY ADVOCACY	P8 EQUITABLE DEVELOPMENT	P9 CUSTOMER VALUE
7	Has the policy been formally communicated to all relevant internal and external stakeholders?	Yes	Employees are required to sign an undertaking, at least annually, stating that they have read the code of business conduct and ethics (COBE) and comply with the principles of the code. New employees are required to sign a similar undertaking at the time of joining. Additionally, all our policies with respect to the nine principles are available on the company's website.	Yes, all policies have been communicated to stakeholders.	Employees are required to sign an undertaking, at least annually, stating that they have read the code of business conduct and ethics (COBE) and comply with the principles of the code. New employees are required to sign a similar undertaking at the time of joining. Additionally, all our policies with respect to the nine principles are available on the company's website.	Yes	Yes		Yes	Employees are required to sign an undertaking, at least annually, stating that they have read the code of business conduct and ethics (COBE) and comply with the principles of the code. New employees are required to sign a similar undertaking at the time of joining. Additionally, all our policies with respect to the nine principles are available on the company's website.
8	Does the company have in-house structure to implement the policy/policies?	Yes	Yes	Yes, we have an intranet where all policies are published along with FAQs. Apart from that we have employee communications sent out on any changes in policies.	Yes	Yes	Yes		Yes	Yes
9	Does the company have a grievance redressal mechanism related to the policy/policies to address stakeholders' grievances related to the policy/policies?	Yes	We also have a dedicated ombudsperson policy to address all concerns related to company-level policies.	Policy grievances are handled by the respective business HR partners. We also have a common e-mail ID, wherein employees can drop an e-mail with their feedback.	We also have a dedicated ombudsperson policy to address all concerns related to company-level policies.	Yes	Yes	Not applicable	NA	We also have a dedicated ombudsperson policy to address all concerns related to company-level policies.
10	Has the company carried out independent audit/evaluation of the working of this policy by an internal or external agency?	Yes	We comply with the nine principles broadly through the following policies: code of business conduct and ethics (COBE), SHE policy and principles, quality policy, purchase policy and HR policies. These policies are regularly reviewed by various internal and external agencies, including regulatory agencies. We also proactively follow public advocacy through various forums.	All policies are audited by the internal audit team. We also have external auditors who review HR policies/ processes.	We comply with the nine principles broadly through the following policies: code of business conduct and ethics (COBE), SHE policy and principles, quality policy, purchase policy and HR policies. These policies are regularly reviewed by various internal and external agencies, including regulatory agencies. We also proactively follow public advocacy through various forums.	Yes	Yes		Yes	We comply with the nine principles broadly through the following policies: code of business conduct and ethics (COBE), SHE policy and principles, quality policy, purchase policy and HR policies. These policies are regularly reviewed by various internal and external agencies, including regulatory agencies. We also proactively follow public advocacy through various forums.



pursuits. We identified a unique way of synthesis of ROXADUSTAT in which a regioselective opening of anhydride ring and Pd metal free C-C bond formation aims to develop an innovative, greener and cost effective route to meet the business needs without compromising on the environmental considerations. In this endeavor, we have reduced the E-factor substantially and quantification of the actual impact is under progress.

(ii) **Reduction in excess rejection material in Metoprolol Succinate production**

Earlier scenario - During the production of Metoprolol Succinate, it was observed that the product contributes to 51% of total "plant solutions" rejection and that 70% of the solution rejects is from the over coating stage of the product. On an average, ~120 kgs of solution was being rejected in the over coating stage in every batch.

Improvement - To minimize the rejection material, the dispensing procedure was modified in such a way that only the yield of the previous stage is considered during next stage dispensing, instead of 100% material dispensing.

Results with revised methodology:

- On an average, ~120 kgs of rejected solution turned into 0 (nil). Elimination of waste and the manual effort required for waste handling;
- Eliminated the cost of disposal of hazardous waste; and
- Cost saving of ₹ 65 lakhs per year accrued as a result of this initiative.

**PRINCIPLE 1  
ETHICS, TRANSPARENCY AND  
ACCOUNTABILITY**

**1. Does the policy relating to ethics, bribery and corruption cover only the company? Yes/No. Does it extend to the group/joint ventures/suppliers/contractors/ NGOs/others?**

Yes. The policy relating to ethics, bribery and corruption extends beyond our company employees, both whole-time and independent directors, covers the subsidiaries and affiliates of the group. While contracts with our suppliers, contractors and business partners include adherence to our principles concerning ethics, there is a separate code of conduct required to be adhered to by our suppliers and service providers.

**2. How many stakeholder complaints have been received in the past financial year and what percentage was satisfactorily resolved by the management?**

We did not receive any significant stakeholder complaints in the last financial year. The company has a hotline for whistle-blowers and receiving concerns. The concerns received are dealt with according to the company's ombudsperson policy. We did not receive any

significant complaint from any external stakeholder in the last financial year.

**PRINCIPLE 2  
PRODUCT LIFE CYCLE  
SUSTAINABILITY**

**1. List up to three of your products or services whose design has incorporated social or environmental concerns, risks and/or opportunities.**

- i. ROXADUSTAT
- ii. Metoprolol Succinate
- iii. Sustainable packaging initiative

**2. For each such product, provide the following details in respect of resource use (energy, water, raw material etc.) per unit of product (optional):**

- i. **Reduction during sourcing/ production/distribution achieved since the previous year throughout the value chain**
- ii. **Reduction during usage by consumers (energy, water) has been achieved since the previous year**

- (i) **ROXADUSTAT**  
We have continued to apply and embed 12 principles of green chemistry in our research and development

## (iii) Sustainable packaging initiative

## a. Elimination of packaging component: Outer shipper elimination of oral solid dosage products for the USA market

Earlier scenario - Inner shippers having bottle/blister pack were further packed in to outer shipper. Presently we have eliminated the use of outer shipper by collating the inner shipper and bundled it using a carry strap. With this initiative, we have

- Reduced usage of 2,135 tons kraft paper material which in turn reduced the generation of paper waste.

Additional benefits realized -

- Increased load-ability on pallet by increasing number of packs on pallet by ~20% which in turn reduced the number of pallets in consignment per batch;
- Eliminated re-packing activity at the USA warehouse; and
- Cost savings in packaging material and logistics.

## b. Replacement of plastic drum with paper fibre drums for Omeprazole Mg DR capsules OTC bulk pack for the USA market

Earlier the bulk foil pouch pack was packed in to plastic drums. Presently we are using paper fibre board drums to pack foil pouches. With this initiative, we have:

- Reduced consumption of plastic drums by ~70 tons/year;
- Reduced the quantity of non-biodegradable waste as the paper fibre drum is bio-degradable in nature; and
- Reduced carbon foot print in transport by increasing the number of pouches per drum as well as the number of drums per pallet.

## c. Removal of medication guide from the product packs meant for the USA market - We have eliminated the physical copy of medication guide and converted it in to e-Medguide. With this initiative, we have:

- Eliminated usage of paper from the system;
- Eliminated one extra packing process step;
- Reduced headspace inside shipper due to removal of Medguide, which resulted in increase in number of packs per shipper; and
- Reduced number of palletized consignment per batch and increased load-ability on pallet.

### 3. Does the company have procedures in place for sustainable sourcing (including transportation)? If yes, what percentage of your inputs was sourced sustainably?

Yes, Dr. Reddy's has well defined and documented "Supplier Code of Conduct" addressing all sustainable sourcing elements like ethics, labor & human rights, wages & benefits, health & safety, environment, management system including bribery and corruption.

Dedicated resources are involved in capacity building and sharing best practices among all strategic business partners. Alternate vendors are being developed where single vendors are considered critical for business continuity.

Dedicated resources are involved in capacity building and sharing best practices among all strategic business partners

We have undertaken several simplification projects to improve our logistics in recent years. Few such initiatives are:

#### Transportation Load Builder (TLB) -

To support finished goods distribution in India, a TLB application has been designed which tracks the stock status of materials at warehouses vis-à-vis the desired target stock levels and automatically prompts for stock transfer to replenish the deficits at the sales warehouse. It minimizes the transportation costs by creating transfer proposals using the truck sizes defined for each transportation lane and optimizing the truck load. With this project, we are also:

1. Identifying SKU sales warehouse combinations where business is at risk of losing sales due to stock outs or low coverage;
2. Ensuring product availability;
3. Reducing manual intervention in the process; and
4. Maximizing truck loads reducing overall cost.

**Air to sea shipment** - We are continually shifting our goods movement from air to sea to effectively reduce carbon footprint in our supply chain. In the reporting period, we have avoided 61,270 tons of carbon emission with this initiative.

#### 4. Has the company taken any steps to procure goods and services from local & small producers, including communities surrounding their place of work? If yes, what steps

**2,135 tons**  
Reduced usage of kraft paper material which in turn reduced the generation of paper waste

**have been taken to improve their capacity and capability of local and small vendors?**

Yes, Dr. Reddy's has procedures in place to procure goods and services from local producers.

Presently 80% of Dr. Reddy's procurements are from domestic producers and 20% from international producers.

Dedicated resources are assigned the job of improving capacity and capabilities of local producers. The following are some of the initiatives:

- Sharing good practices via audits and workshops;
- Mandatory supplier trainings for new vendors; and
- Inculcating a culture of resource conservations among local producers with regard to improved solvent recovery efficiencies and eliminating usage of hazardous solvents.

**5. Does the company have a mechanism to recycle products and wastes? If yes, what is the percentage of recycled products and wastes.**

We have ambitiously taken a target to go for zero solid waste to landfill by the end of 2020. For the same we have taken few initiatives to reuse/recycle the waste.

At Dr. Reddy's, total ~19,600 tons of hazardous waste was generated during the reporting period in India. Out of the total hazardous waste generated, 94.4% of the waste was sent to cement industries for co-processing thereby eliminating offsite incineration. Almost 4.1% waste was sent for recycling.

Thus, 98.5% of hazardous waste was co-processed and recycled. Our API facilities have already achieved zero solid waste to landfill. We at



Dr. Reddy's have strengthened our efforts to be 100% zero waste to landfill by 2020.

**PRINCIPLE 3  
EMPLOYEE WELL-BEING**

- 1. Please indicate the total number of employees.**  
23,524
- 2. Please indicate the total number of employees hired on temporary/contractual/casual basis.**  
904
- 3. Please indicate the number of permanent women employees.**  
4,044
- 4. Please indicate the number of permanent employees with disabilities.**  
61 in India
- 5. Do you have an employee association that is recognized by management?**  
Yes

**6. What percentage of your permanent employees is members of this recognized employee association?**

4.2%

**7. Please indicate the number of complaints relating to child labor, forced labor, involuntary labor, sexual harassment in the last financial year and pending, as on the end of the financial year.**

Table 2 provides the details.

**8. What percentage of your employees were given safety & skill up-gradation training in the last year?**

We have trained 785 employees for skill up-gradation. 9,776 employees underwent safety refresher training program.

**PRINCIPLE 4  
STAKEHOLDER ENGAGEMENT**

**1. Has the company mapped its internal and external stakeholders?**

Yes, we have mapped our internal and external stakeholders.

**TABLE 2**

SL. NO.	CATEGORY	NO. OF COMPLAINTS FILED DURING THE FINANCIAL YEAR	NO. OF COMPLAINTS PENDING AS ON END OF THE FINANCIAL YEAR
1	Child labor/forced labor/involuntary labor	0	0
2	Sexual harassment	7	0
3	Discriminatory employment	0	0



**2. Out of the above, has the company identified the disadvantaged, vulnerable and marginalized stakeholders?**

Yes, we have identified disadvantaged, vulnerable and marginalized stakeholders.

**3. Are there any special initiatives taken by the company to engage with the disadvantaged, vulnerable and marginalized stakeholders?**

We believe businesses must strengthen capabilities to fulfil stakeholder aspirations through greater engagement. At Dr. Reddy's, we build lasting bonds with all our stakeholders, internal and external, through meaningful deliberations. This process helps us review our actions, rethink our roadmap, redress grievances and recognize new avenues of growth.

We have identified clusters of stakeholders who are directly and indirectly affected by our operations, and have developed targeted engagement mechanisms for each cluster.

**Table 3** details our engagement platforms for each stakeholder group.

**PRINCIPLE 5  
HUMAN RIGHTS**

**1. Does the policy of the company on human rights cover only**

**the company or extend to the group/joint ventures/suppliers/contractors/NGOs/others?**

At present, our policy is extended to the group, our suppliers, contractors and NGOs.

**2. How many stakeholder complaints have been received in the past financial year and what percent was satisfactorily resolved by the management?**

We did not receive any complaints in the last financial year.

**PRINCIPLE 6  
ENVIRONMENT**

**1. Does the policy related to Principle 6 cover only the company or extends to the group/joint ventures/suppliers/contractors/NGOs/others?**

Dr. Reddy's has well defined Safety, Health and Environmental policy and principles in place to motivate our employees to minimize our environmental impacts. The policy and principles are also communicated to all our stakeholders and ensure that they are in compliance with the policy.

**2. Does the company have strategies/initiatives to address global environmental issues such as climate change, global warming, etc?**

Dr. Reddy's is a responsible corporate committed towards managing climate change both within and beyond our sphere of influence.



Yes, the company has internal commitments to address climate change and global warming.

Through carbon disclosure project (CDP), we are publicly disclosing our carbon footprint to all stakeholders at regular intervals. In CDP 2017 report, we have achieved A- score band. We have participated in CDP's supply change disclosure on behalf of our key customers and achieved A- score band in CDP 2017.

The CDP 2017 report can be accessed at:  
<https://b8f65cb373b1b7b15feb-c70d8ead6ced550b4d987d7c03fcdd1d.ssl.cf3.rackcdn.com/cms/reports/documents/000/002/763/original/India-edition-climate-change-report-2017.pdf?1509623272>

We are also disclosing our water footprint through CDP's water disclosure. In CDP 2017, we have achieved B score band in it.

**TABLE 3**

KEY STAKEHOLDERS	ENGAGEMENT PLATFORMS
<b>EMPLOYEES</b> The driving forces of the organisation, our employees deserve a safe, inclusive and empowering work place with the freedom to act, innovate and grow not just as professionals but also individuals	Organisation health index   Inhouse publications   Intranet   Internal networking platform   CEO communication   360 degree feedback   Celebrations   Training programs   Health page
<b>INVESTORS AND SHAREHOLDERS</b> Our investors and shareholders put trust and financial capital in the organisation and expect a steady return on their investments.	Analyst meets   Quarterly results   Annual reports   Sustainability reports   Earning calls   E-mail communication   Official news releases and presentations
<b>SOCIETY</b> Communities across the world, specially the economically weaker sections of the society, whose lives are impacted by our social contributions. Healthcare professionals who rely on today's products and tommorrow's innovations	Through partners like Dr. Reddy's Foundation, CSIM, NICE Foundation and local NGO partners and employee volunteering program Dr. Reddy's Foundation for Health and Education (DRFHE) Inner circle - Relationship building programs   Abhilasha - Nursing efficiency program   Sarathi - Doctor's assistant program   Sanjeevani - Pharmacists program   Sutradhar - Ward boy's program   Akriti - Orthopedicians' program
<b>CUSTOMERS AND PARTNERS</b> Insurers, vendors, suppliers, distributors, Government, regulators and business partners who support various aspects of our operations.	Customers: Customer satisfaction survey, regular business meetings Business partners - Vendors: Vendor meets, strategic business partner training and development

We publicly report on our environmental performance through our sustainability report. Please refer to page nos. 79 to 91 of our sustainability report 2016-17 where we have mentioned details regarding the environmental initiatives taken at our units.

The company's sustainability report 2016-17 can be accessed at: [www.drreddys.com/our-citizenship/sustainability/](http://www.drreddys.com/our-citizenship/sustainability/)

**3. Does the company identify and assess potential environmental risks?**

Yes, Dr. Reddy's as a corporate identifies and assesses potential environmental risks and mitigates them through environmental risk management initiatives.

The environmental risks as identified are reviewed by the risk management committee of the Board on a periodic basis.

**4. Does the company have any project related to clean development mechanism? Also, if yes, whether any environment compliance report is filed?**

No, we have not filed any project under clean development mechanism. However, at Dr. Reddy's, we have implemented 193 energy conservation projects across various business units in 2017-18, thus eliminating GHG emission by 45,497 tons of CO<sub>2</sub>e.

**5. Has the company undertaken any other initiatives on clean technology, energy efficiency, renewable energy, etc.?**

Yes, Dr. Reddy's, as responsible corporate, has undertaken many energy conservation initiatives. In the year 2017-18, we have implemented 193 energy conservations projects across various business units and accrued savings of ₹ 314.23 million, thus eliminating GHG emission by 45,497 tons of CO<sub>2</sub>e.

The share of renewable energy in our total energy consumption has also increased; solar energy consumption for the FY2018 was

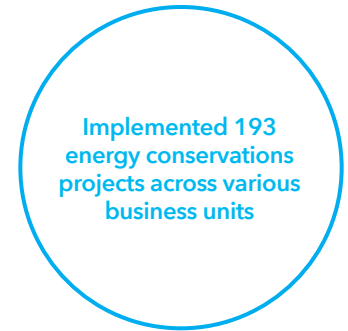
around 51.7 million kwh, thereby we have avoided carbon emission by 49,611 tons of CO<sub>2</sub>e. We have also generated 183.63 TJ of energy using of biomass/rice husk briquettes, thus eliminating GHG emission by 18,769 tons of CO<sub>2</sub>e.

**6. Are the emissions/waste generated by the company with in the permissible limits given by CPCB/SPCB for the financial year being reported?**

Yes, air emissions and waste generated by Dr. Reddy's are within the permissible limits prescribed by environmental regulators.

**7. Number of show cause/legal notices received from CPCB/SPCB which are pending (i.e. not resolved to satisfaction) as on end of financial year.**

All the notices that we have received during the FY2018 are addressed and closed as on end of the year.



**only those major ones that your business deals with:**

- National Safety Council
- Life Sciences Skill Development Council of India
- National Council of the CII
- Indian Pharmaceutical Alliance (IPA)
- Board of Trade, Ministry of Commerce, Govt. of India
- India-Russia CEO Council of CII
- India-Spain CEO Forum for Economic Expansion
- India-Indonesia CEO Forum

**PRINCIPLE 7  
POLICY ADVOCACY**

**1. Is your company a member of any trade and chamber or association? If Yes, name**

**2. Have you advocated/lobbied through above associations for the advancement or improvement of public good?**

We have advocated for economic reforms through these associations.





**PRINCIPLE 8  
EQUITABLE DEVELOPMENT**

**1. Does the company have specified programs/initiatives/projects in pursuit of the policy related to Principle 8?**

We are focusing on specific CSR initiatives that support social development. The implementation of these programs is carried out through various partner organizations. We work primarily in the areas of education, livelihood and health. The key programmes are described below:

**Education**

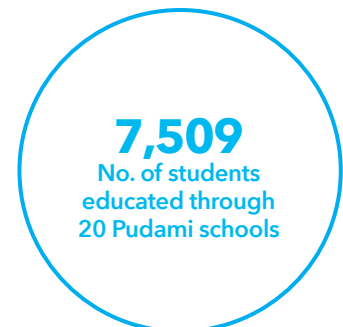
Our education initiatives focus on enhancing the quality of education.

- Pudami neighborhood schools and English primaries aim to make available quality english medium education to children from underprivileged sections. 20 Pudami schools are educating over 7,509 students. Kallam Anji Reddy Vidyalaya (KARV), a model Pudami school caters to 2,240 students.
- Kallam Anji Reddy Vocational Junior College (KAR-VJR) trains tenth class pass-out students in two-year vocational courses. The college is currently offering 10 vocational courses. Every year it trains nearly 500 students.

- School Improvement Programme (SIP) in government schools focuses on students in 74 schools across six districts of Andhra Pradesh and Telangana. Through SIP we provide remedial learning, computer skills, spoken English, basic amenities, safe water and sanitation. SIP also provides scholarships for meritorious students to pursue higher education.
- Science education through mobile science van that reaches out to schools and community has been initiated in partnership with Agastya International Foundation. In FY2018, 4,475 students in 14 schools were covered through 193 mobile science lab visits. Additionally, the mobile science lab conducted 25 community visits covering both, the children and the adults in the community.
- Higher education in liberal arts: Dr. Reddy's has been supporting Ashoka University to enable high quality research and education in the subject of liberal arts, which nurtures a healthy and critical thinking and develops future leaders and thinkers.

**Livelihood**

- Our livelihood programmes, implemented through Dr. Reddy's Foundation (DRF), focus on making the Indian youth employable and enhance their earning potential.
- Grow - Youth: It is developed for youth between 18 and 30 years, who have limited opportunities and inadequate skill sets. Grow equips them with job specific skills, soft skills, computer skills to make them employable. In FY2018, we trained 165 youth through our supported centers.
- Grow PwD: Grow People with Disabilities (PwD), a skill development programme of 60 days, where differently abled youth aged between 18-30 years are given training in market driven skills which enable them to gain a suitable employment opportunity. In FY2018, 269 candidates were trained through this programme.
- MITRA: This programme assists farmers on technology and methodology in farming. This programme helps them enhance their income by increasing productivity. In FY2018, 7,688 farmers were supported through this programme.
- Developing change makers We trained 36 budding social change agents on entrepreneurial and leadership



skills through Center for Social Initiatives and Management (CSIM) - Hyderabad.

#### Health initiatives

Our health initiatives include: The Community Health Intervention Programme (CHIP) covers 145 villages of Srikakulam, Nalgonda and Vizianagaram districts. This project was started in partnership with the NICE foundation to provide primary and preventive care at the doorstep, to a large segment of rural population that do not have access to safe and reliable healthcare in the region. In FY2018, we reached out to a population of 2.15 lakhs.

**2. Are the programmes/projects undertaken through in-house team/own foundation/external NGO/government structures/ any other organization?**

We engage with the community through our partners like DRF, Naandi Foundation, NICE Foundation, Agastya International Foundation and other similar organizations.

**3. Have you done any impact assessment of your initiative?**

We review our internal assessment systems and projects from time to time. Each project has specific deliverables against which it is measured.

**4. What is your company's direct contribution to community development projects - Amount in INR and the details of the projects undertaken?**

We contributed ₹ 32.81 crores for community development. For details of the projects undertaken refer the projects listed in the CSR Report. Refer page no. 87-88

**5. Have you taken steps to ensure that this community development initiative is successfully adopted by the community?**

Our community development initiatives are inclusive and designed towards sustainability. We involve gram panchayat or

local government in the project development discussions.

For education programmes, we encourage the participation of parents in the school management committee (SMC) meetings, in which even local leaders participate, to instill ownership. Mandal education officer (MEO) on quarterly basis reviews the school performance. Youth participating in the vocational skills enhancing programmes, pay a small percentage of the course fees. For health programme, local panchayat and villagers were involved right at the beginning. Villagers and local government authorities have given space for running out patient (OP) wards and beneficiaries i.e. the community members are given the responsibility of running the OP and scheduling the patients. Patients are showing positive attitude towards minimal contribution sought from them for rendering medical services at their door steps. For other community development initiatives as well, we engage the local authorities whose active involvement encourages participation and ownership from the community members. To elaborate, in case of Gundlapally Lake Revival initiative, the involvement of the District Administrator resulted in greater participation from the villagers. The villagers not only supported in the revival but also committed to protect the lake further.

#### PRINCIPLE 9 CUSTOMER VALUE

**1. What percentage of customer complaints/consumer cases are pending as on the end of financial year?**

There are two consumer cases pending.

**2. Does the company display product information on the product label, over and above what is mandated as per local laws?**

In addition to the mandatory regulatory requirements, we

sometimes provide additional information in labelling. This includes provision for prescriber to instruct dosing and patient instructions. This campaign is named as "purple health" and Dr. Reddy's received awards during 2016 and 2017 for patient centric packaging award, innopack award for packaging innovation and design excellence award.

**3. Is there any case filed by any stakeholder against the company regarding unfair trade practices, irresponsible advertising and/or anti-competitive behaviour during the last five years and pending as on end of financial year?**

A stockist based out of Gujarat has filed proceedings against the Chemists and Druggists Association of Baroda, its office bearers and (17) seventeen manufacturing companies along with their carrying and forwarding agents, which includes Dr. Reddy's also before the Competition Commission of India alleging contravention of sections 3 & 4 of the Competition Act, 2002. The Commission has directed the Director General to investigate the role of Chemists and Druggists Association of Baroda, its office bearers and submit a report. In pursuance to such investigation, a notice was issued to the company to furnish certain information which was complied with.

The Deputy Director General has finished the investigation and the final investigation report dated 1 May 2017 has been circulated. There are no findings made against the company. Other than the above mentioned issue, there are no other cases filed by any stakeholder against the company.

**4. Did your company carry out any consumer survey/consumer satisfaction trends?**

No

# Management Discussion and Analysis

Dr. Reddy's Laboratories Ltd.  
(‘Dr. Reddy’s’, or ‘the company’)  
is an integrated global  
pharmaceutical enterprise  
committed to accelerate access  
to affordable and innovative  
medicines

- (1) FY2018 represents the fiscal year 2017-18, from 1 April 2017 to 31 March 2018, and analogously for FY2017 and previously such labeled years.
- (2) Unless otherwise stated, the financial data given in this Management Discussion and Analysis is based on the company's consolidated results prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Dr. Reddy's operates through three key core business segments:

- a) Global Generics (GG), which includes branded and unbranded prescription medicine as well as over-the-counter (OTC) pharmaceutical products. It also includes the biosimilars business;
- b) Pharmaceutical Services & Active Ingredients (PSAI), which comprises Active Pharmaceutical Ingredients (APIs) and Custom Pharmaceutical Services (CPS); and
- c) Proprietary Products (PP), which mainly comprises the differentiated formulations business, focused on dermatology and neurology.

Through its portfolio of products and services, Dr. Reddy's operates in multiple therapeutic areas. The major ones cover gastrointestinal, oncology, cardiovascular, pain management, Central Nervous System (CNS), anti-infective, respiratory and dermatology. The company has a presence in many countries across the globe, the key geographies being the US, Europe, India, Russia, Commonwealth of Independent States (CIS) countries, China and other emerging markets.

To achieve our goals, we work to fulfil five promises. These are:

1. Bringing expensive medicines within reach;
2. Addressing unmet patient needs;
3. Helping patients manage disease better;
4. Working with partners to help them succeed; and
5. Enabling and helping our partners ensure that our medicines are available where needed.

FY2018 has been a difficult year for the company, largely on account of two factors. The extremely difficult market conditions in the US were exacerbated by intense price competition and channel consolidation. The other roadblock was the inability to supply key molecules to the US because of three plants being issued warning letters by the US Food and Drug Administration (USFDA) in November 2015 - a matter that is yet to be resolved till date. But before delving into these and other details, it is useful to highlight the company's key consolidated financial results for FY2018.

## CONSOLIDATED FINANCIAL RESULTS FOR FY2018 UNDER IFRS

### CONSOLIDATED REVENUES

₹ 142 bn

~1% increase over the previous year.

### GROSS PROFIT MARGIN

53.7%

compared to 55.6% in the previous year.

### EBITDA

₹ 24.1 bn

compared to ₹ 25.5 billion in the previous year.

### PROFIT BEFORE TAX (PBT)

₹ 14.3 bn

compared to ₹ 14.7 billion in the previous year.

### PROFIT AFTER TAX (PAT)

₹ 9.8 bn

compared to ₹ 12 billion in the previous year.

### DILUTED EPS

₹ 59

compared to ₹ 72 in the previous year.



As is evident, the company's financial performance has been muted in FY2018. This was on account of the following factors.

1. **Price erosion and channel consolidation in the US:** As in the preceding year, the US market saw further consolidation of sales channels that have continued to give the buyers even greater pricing power. This has affected all major pharmaceutical companies exporting to the US, and Dr. Reddy's is no exception. The effects of channel consolidation have been aggravated by intense price competition among multiple suppliers for each generic pharmaceutical product. This, too, was an industry-wide trend affecting all suppliers of generic drugs in the US.
2. **Regulatory consequences, USFDA:** As known by shareholders and analysts, in November 2015, the USFDA issued warning letters regarding three plants - an API manufacturing facility at Miryalaguda (Telangana), another API plant at Srikakulam (Andhra Pradesh), and an oncology formulation manufacturing facility at Duvvada near Visakhapatnam (Andhra Pradesh). Pending resolution of the issues identified in the letters, the USFDA withheld approval of new products from these facilities. Since then, Dr. Reddy's, in consultation with international specialists and the USFDA, has continuously worked on instituting corrective and preventive actions across these three sites and had follow-up meetings with the regulator. The USFDA re-inspected these facilities during February-April 2017. Based on their observations,

further corrective actions were undertaken, information on which was shared with the regulator. As of date, the API manufacturing facility at Miryalaguda has received an EIR, officially closing the audit. However for the remaining two sites there is no change in status vis-à-vis the USFDA. Thus, launches of some key molecules, injectables as well as certain APIs from these sites have been delayed. Although the company has successfully secured regulatory and customer approvals to transfer the production of some of these products to alternative facilities, the consequence has been a significant loss of revenue opportunity from the US for both FY2017 and FY2018. The USFDA issue is discussed in further detail in a later section of this chapter.

3. **Regulatory consequences, German audit:** The Federal Institute for Drugs and Medical Devices (BfArM) of Germany audited the company's formulation unit 2 (FTO-2) at Bachupally, Hyderabad (Telangana). This resulted in non-renewal of the Good Manufacturing Practice (GMP) compliance certificate in August 2017. After a follow-up audit, the GMP non-compliance status was withdrawn in January 2018. However, it caused a four month hiatus in sale in Europe in FY2018.
4. **Effects of the Goods and Services Tax (GST) implementation in India and price controls under the Drug Price Control Order (DPCO):** India transitioned to the GST regime on 1 July 2017. The company's performance was impacted due to reduction in channel inventory and absorption of higher tax on drugs that are not in the National List of Essential Medicines (NLEM).



Moreover, price controls under the DPCO also affected revenue across selected products. As a result, the sales performance in India was muted than it ought to have been.

## A SNAPSHOT OF PERFORMANCE GLOBAL GENERICS (GG)

- **Revenue from GG in FY2018 was ₹ 114 billion**, representing a decline of 1% compared to the previous year. This was primarily on account of lower contribution from North America and lower than usual growth witnessed in the India business;
- **Revenue from North America Generics was ₹ 59.8 billion**, a decline of 6% versus FY2017. This was largely due to significant adverse price erosion witnessed in some key molecules, such as Azacitidine, Decitabine, Valgancyclovir, and Eesomeprazole DR. As explained earlier, the price erosion was due to increased competitive intensity coupled with channel consolidation that led to higher purchasing power in the hands of the limited number of buyers. This decline was partly offset by new products launched during the year and the full-year impact of products launched during the previous year;
- **During the year, Dr. Reddy's launched 15 new products in North America** - the major ones being Liposomal Doxorubicin, Ezetimibe-Simvastatin, Sevelamer, Palonosetron injection and Bivalrudin injection;
- **In FY2018, we filed 19 new Abbreviated New Drug Applications (ANDAs) and one New Drug Application (NDA) with the USFDA.** As of 31 March 2018, we had 110 generic filings pending approval from the USFDA, comprising 107 ANDAs and three NDAs filed under the 505(b)(2) route of the US Federal Food, Drug and Cosmetic Act. Of the 107 ANDAs, 63 are Para IV applications, of which we believe 30 have 'First to File' status;
- **Revenue from Europe was ₹ 8.2 billion**, representing a growth of 8% versus FY2017. As mentioned earlier, the growth would have been higher had we not faced temporary supply restrictions due to the BfArM audit of FTO-2. This matter has been satisfactorily resolved;

- **Revenue from Emerging Markets was ₹ 22.7 billion**, a growth of 8% versus FY2017. The expansion was primarily driven by new product launches and entry into new markets.
  - **Revenue from Russia was ₹ 12.6 billion**, year-on-year growth of 9%;
  - **Revenue from other CIS countries and Romania was ₹ 3.9 billion**, year-on-year growth of 6%; and
  - **Revenue from Rest of the World (RoW) territories was ₹ 6.1 billion**, year-on-year growth of 5%.
- **Revenue from India was ₹ 23.3 billion**, a growth of 1% versus FY2017. As mentioned earlier, the growth was muted due to channel de-stocking witnessed during the transition to the GST regime, impact due to higher tax rate, and the fact that the indirect tax component is no longer included in gross sales. Adjusted for these transition-related impacts, the business grew by 8%, thanks to volume uptake and new products launched during the year.

#### PHARMACEUTICAL SERVICES AND ACTIVE INGREDIENTS (PSAI)

- **Revenues from PSAI stood at ₹ 22.0 billion**, representing a growth of 3% versus FY2017. During the year, we filed 73 Drug Master Files (DMFs) worldwide.

#### PROPRIETARY PRODUCTS (PP)

- **Revenue from PP was ₹ 4.2 billion**. This included a milestone payment of ₹ 1.5 billion from Encore Dermatology Inc. as part of the out-licensing agreement pertaining to IMPOYZ™ (clobetasol propionate) cream 0.025%, which was approved by the USFDA during the year.

#### GLOBAL PHARMACEUTICAL MARKET OUTLOOK

2017 saw several structural changes such as the implementation of the GST regime in India, corporate tax reforms in the US and the European Union (EU) shifting the headquarters of its European Medicines Agency (EMA) from London to Amsterdam. Besides these, the pharmaceutical industry has its 'hardy perennials': ever-more stringent regulatory environments across all major geographies, price

controls, greater competition, and channel consolidation as well as geopolitical instability in some regions.

Despite these negative trends, the long-term outlook for the industry remains broadly positive. Moreover, other trends such as new gene therapies, opportunities afforded by digital health technologies, an anticipated pick-up in drug approval rates in the US, and favorable demographics are expected to provide their impetus.

According to the 2017 World Preview report of EvaluatePharma®, prescription drug and OTC sales are forecast to grow at an impressive compound annual rate of 5.4%, rising from US\$ 803 billion in 2016 to US\$ 1.1 trillion worldwide in 2022<sup>1</sup>. Much of this growth is set to come from key therapy areas such as new anti-cancer molecules, immunotherapies and orphan drugs<sup>2</sup>. Orphan drugs are projected to account for 32% of the increase in sales in 2022. The share of generics in total prescription drugs sale will remain relatively constant between 10.6% and 11%. **Table 1** below shows the estimates of EvaluatePharma® for global prescription drug and OTC sales between 2016 and 2022.

**TABLE 1** PROJECTED GLOBAL SALES OF PRESCRIPTION AND OTC DRUGS, 2016 VERSUS 2022

PARTICULARS	SALES		CAGR	MARKET SHARE	
	2016	2022		2016	2022
Oncology	93.7	192.2	12.7%	11.7%	17.5%
Anti-diabetics	43.6	57.9	4.8%	5.4%	5.3%
Anti-rheumatics	53.3	55.4	0.6%	6.6%	5.0%
Anti-virals	48.5	42.8	-2.1%	6.0%	3.9%
Vaccines	27.5	35.3	4.2%	3.4%	3.2%
Bronchodilators	28.3	30.1	1.0%	3.5%	2.7%
Sensory organs	20.2	28.3	5.8%	2.5%	2.6%
Immunosuppressants	11.6	26.3	14.6%	1.4%	2.4%
Anti-hypertensives	24.8	24.4	-0.2%	3.1%	2.2%
Anti-coagulants	14.1	23.2	8.6%	1.8%	2.1%
MS therapies	21.6	21.7	0.1%	2.7%	2.0%
Dermatologicals	10.5	19.9	11.2%	1.3%	1.8%
Anti-fibrinolytics	11.6	17.1	6.6%	1.4%	1.6%
Anti-hyperlipidaemics	13.8	13.4	-0.6%	1.7%	1.2%
Anti-bacterials	10.5	12.8	3.4%	1.3%	1.2%
<b>Top 15 therapeutic areas</b>	<b>433.6</b>	<b>600.8</b>	<b>5.6%</b>	<b>54.0%</b>	<b>54.6%</b>
<b>Others</b>	<b>369.0</b>	<b>500.0</b>	<b>5.2%</b>	<b>46.0%</b>	<b>45.4%</b>
<b>Total</b>	<b>802.6</b>	<b>1100.8</b>	<b>5.4%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: EvaluatePharma®, 'World Preview 2017, Outlook to 2022', 10th edition, June 2017, pp. 23-24.

<sup>(1)</sup> EvaluatePharma®, 'World Preview 2017, Outlook to 2022', 10th edition, June 2017.

<sup>(2)</sup> An orphan drug is one that has been developed specifically to treat a rare medical condition, the condition itself being referred to as an orphan disease that affects a very small percentage of a given population.



Given below are some notable trends that are expected to have a significant impact on the industry:

- **Oncology will be an even greater driver of growth:** As Table 1 shows, specialized medicines for the treatment of cancer was the leader in 2016, accounting for almost US\$ 94 billion in sales and 11.7% of the global market share for prescription and OTC products. This trend will become even more pronounced by 2022. With a CAGR of 12%, sales of oncological drugs are expected to cross US\$ 192 billion, with a market share of 17.5%. In fact, the estimated sales of oncological drugs will exceed the combined sales of the next three top therapeutic areas, namely anti-diabetics, anti-rheumatics and anti-virals.



- **Orphan drugs will be an increasing trend:** The orphan drug market is expected to almost double in the next five years, reaching US\$ 209 billion in 2022. Of the top 100 drugs in the US, the average cost per patient per year for an orphan drug was approximately five times as much as a non-orphan. Three factors augur well for orphan drugs in the US. First, there has been a distinct increase in USFDA approvals of such drugs: 75 in 2017 versus 27 in 2016 and 56 in 2015. This is expected to continue. Second, while some 600 orphan drug treatments have been approved till date, over 7,000 conditions are designated as rare in the US. Hence, there is considerable scope in this area. Third, while the latest tax reforms in the US have reduced tax credits on orphan drugs from 50% to 25%, other key benefits remain. These are, among others, a market exclusivity for seven years, faster USFDA review, and waived fees and

exception from the branded drug pharma fee under the Affordable Care Act.

- **Generic drug approvals on the rise in the US:** Under USFDA Commissioner Scott Gottlieb, the agency has set a high priority to improve the generic drug review process to increase competition. In 2017, USFDA recorded its highest annual total of 1,027 generic drug approvals – comprising 843 full and 184 tentative approvals. According to a recent blog by Commissioner Gottlieb, if current trends continue, the agency expects to exceed this record in 2018. Higher and faster generic drug approvals are welcome, but there is concern that the process will lead to greater price competition than hitherto witnessed in the US. Players who have superior business and go-to-market models, well-integrated operations and are better equipped in terms of quality and compliance should gain from this change.
- **The biologics and biosimilars megatrend:** Biologics are predicted to account for more than a quarter of the pharmaceutical market by 2020. In the US, according to the 2017 report of EvaluatePharma®, biologics is expected to contribute to over 50% of the Top 100 product sales in the US by 2022. However, with success, the industry's biggest biologics players face revenue threats from biosimilars. Lack of affordable access to biologics has created favorable tailwinds for biosimilars, especially in emerging markets. Within the EU, countries are already seeing considerable cost savings with biosimilars, typically in the range of 30% or more. As of November 2017, the EMA has approved 34 biosimilars, versus just three approvals in 2016, and the biosimilars market in Europe is expected to grow at a CAGR of 30% during 2017-22. Equally so in emerging markets such as Brazil, Russia, India, China and South Africa, where with the advent of clear approval pathways, analysts expect sales to grow at an estimated CAGR of almost 31% between 2017 and 2022. The highest impact in biosimilars sales in the US is expected in the next two years and anywhere between 25 and 35 biosimilars are expected to be in that market by 2020. However, there are still headwinds in the US without a clear regulatory pathway. As far as the developed markets are concerned, 2018 will see some US\$ 19 billion of biologics facing competition from biosimilars, versus US\$ 3 billion in 2017. This exposure to the biosimilars competition in 2018 is the largest single-year change to date and should signal the start of the next large wave of biosimilars. As EvaluatePharma® has observed, there will soon be a second patent cliff era with the advent of biosimilars.
- **Shift to specialty drugs:** The pharmaceutical industry has in the recent past witnessed more specialty products than ever before. This has generated a wave of exciting new science that can drive profitable growth and possibly offset current and future patent expiries. Over the past few years, the shift has been clearly seen in an increased proportion of New Molecular Entity (NME) approvals in the specialty areas, plus the rise in average sales contribution of specialty NMEs. During 2008-15, the average sales of specialty NMEs in the first two years post-launch increased roughly four times. This is expected to continue. Backed by a robust pipeline, the late-stage industry pipeline is forecast to be a minimum of 40 NME approvals per year up to 2021. However, growth of these specialty drugs will depend upon how these could counter the affordability gap, as payers and governments persistently try and reduce healthcare costs.
- **Personalized medicine expected to gain significant prominence:** The global personalized medicine market is forecast to grow at a



CAGR of almost 12% till 2022, which will be more than double the projected annual growth for the overall healthcare sector. Growth will be driven by advancements in technology and targeted therapies that are more efficient and can provide more value. The shift in focus on prevention and early intervention is creating the impetus for this niche segment. More than 40% of all compounds and 70% of oncology compounds have the potential to be personalized medicines. Real-time big data and Artificial Intelligence (AI) technologies are accelerating the development of the most fruitful molecules and compounds. As personalized medicine increasingly moves from the theoretical to the practical, life sciences companies are focusing on operationalizing the necessary shift in the business model, especially processes to manufacture, distribute, and administer treatments. The 'vein-to-vein' nature of personalized medicine will force supply chain leaders to re-conceptualize almost every aspect of the traditional operational model to account for more stringent temperature and stability controls, crunched production and delivery times, re-evaluating capacity planning, and more. The very nature of personalized medicine with impenetrable patent exclusivity represents some of the appeal for spending big on these capabilities now, if companies can afford these expenditures.

- **Gene therapy - a new reality:** Gene therapy will disrupt the pharmaceutical sector by offering customized, targeted patient treatment, including newly approved CAR-T cell therapies. While adoption is still low, insights from human genetics and precision medicine will increasingly transform healthcare by bringing value through innovative biotechnology. Given that approximately 80% of rare diseases are of genetic origin, gene therapy will play a significant role in the treatment of such diseases. Different approaches are being explored by several pharmaceutical and biotech companies, such as the replacement of a defective gene with a healthy one, inactivation of a mutated

AI algorithms are being used to analyze large data sets from clinical trials, health records, genetic profiles, and preclinical studies

gene, and introduction of a new gene in the patient's body to fight a disease. A look at the sheer number of trials in gene therapy indicates that this will be a game changer in pharmaceuticals earlier than what most people believed.

- **Convergence of IT and pharmaceuticals:** On the face of it, the use of AI seems to be slower in life sciences compared to some other industries. However, the traction is improving with each day, and AI will indelibly impact the way drugs and medical devices are discovered, designed, created, distributed, and used. A growing number of global bio-pharma companies are using AI to streamline the drug discovery process. AI algorithms are being used to analyze large data sets from clinical trials, health records, genetic profiles, and preclinical studies. Patterns and trends within such big data are helping to develop hypotheses at a much faster rate than ever before. Apart from AI, other technologies such as Real-World Evidence (RWE), robotic and cognitive automation, and cloud computing are expected to bring transformational change to R&D. These emerging technologies will improve study design, physician and patient recruitment, and in-trial

2.1 bn  
GLOBAL  
POPULATION  
of 60 years and  
above by 2050

decision making, as well as increase efficiency and accuracy in other critical tasks such as transformation in supply chain all the way through to regulatory filing.

- **Rapid urbanization, ageing population and lifestyle diseases:** By 2050, over two-thirds of the world's population will live in cities. In emerging markets, we are already witnessing what rapid and unplanned urbanization leads to – uncontrollable population densities, poverty of a growing under-class, and the lack of adequate urban infrastructure. These invariably create conditions for higher incidence of communicable and epidemiological diseases, which prompt government demand for affordable anti-infective medicine and related prophylactics. Regarding ageing, the global population of 60 years and above is projected to grow by 56% to reach an estimated 1.4 billion between 2015 and 2030. By 2050, this will more than double to touch 2.1 billion. Ageing population automatically implies higher healthcare spending. Healthcare systems will need to prepare for increasing incidences of chronic conditions in progressively older populations, with a focus on providing preventive versus reactive care. Changing lifestyles have led to unhealthy eating habits, inadequate exercise, less sleep, and physical strains of the kind that were absent three to four decades ago. Consequentially, we see higher obesity rates, diabetes, poor digestion, cardiovascular problems, breathing difficulties, spinal troubles, and other ailments. These diseases have not only created a demand for health supplements, but have also created greater dependence on regular medication.
- **Higher and more frequent regulatory inspection on drug pricing:** Increased budgetary pressure on governments to reduce their healthcare costs has and will, lead to pricing pressures. Regulators are increasingly watchful of price increases taken by pharmaceutical companies. Many global firms have been summoned by law makers over price increases. Reforms are being implemented, drafted, or being thought of by various countries to constrain drug prices.

These have occurred in developed countries as well as in emerging markets. Such pressures will continue, indeed exacerbate. Pharma majors will have to plan future sales with price moderation in mind.

### DR. REDDY'S MARKET PERFORMANCE, FY2018 NORTH AMERICA GENERICS

North America Generics is Dr. Reddy's largest market. In FY2018, it contributed to over 52% of the GG sales and 42% of the company's overall sales.

**Revenue from the region for FY2018 was ₹ 59.8 billion (US\$ 919 million), representing a decline of 6% compared to the previous year.** As mentioned before, the year continued to be challenging for the business on account of significant price erosion faced due to channel consolidation and increased competition across some of the major products. The negative impact was partially offset by new product launches - the major ones being Liposomal Doxorubicin, Ezetimibe-Simvastatin, Palonosetron, Sevelamer Carbonate and Bivalirudin injection. Some key developments were:

- Launched Doxorubicin Hydrochloride Liposome injection, a therapeutic equivalent generic version of DOXIL®, for intravenous use, in collaboration with the company's partner, Natco Pharma Ltd;
- Launched Ezetimibe and Simvastatin tablets, a therapeutic equivalent generic version of VYTORIN® tablets, which is used to lower 'bad' cholesterol and fats (such as LDL and triglycerides) and raise 'good' cholesterol (HDL) in the blood;
- Launched Sevelamer Carbonate tablets, a therapeutically equivalent generic version of RENVELA® tablets, which is used to lower high blood phosphorus levels in patients who are on dialysis due to severe kidney disease;
- Gained significant market share in certain products such as Metoprolol, Omeprazole, and Sirolimus; and
- Filed 19 new ANDAs and one NDA during the year. These comprise some complex products and are across the different dosage forms.



Our current priorities are new product launches by addressing specific USFDA queries, remediation at the plants impacted by the USFDA's warning letter, and de-risking of high-value launches from these plants. We will also focus on increasing market share on existing products without destroying the value of these drugs.

To ensure we continue to grow in the US market, our strategy is to focus on complex formulations, primarily injectables and oral solid dosage forms as well as OTC brands in the medium term, and 505(b)(2) generics, controlled substances under class II, and non-substitutable generics in the longer term.

#### EMERGING MARKETS

**Revenue from Emerging Markets for FY2018 was ₹ 22.7 billion**, representing a growth of 8% compared to the previous year. This occurred on the back of new product launches as well as entry and scale-up in new markets.

**Revenue from Russia for FY2018 was ₹ 12.6 billion**, representing a 9% growth over the previous year on the back of new product launches and favorable currency rate. The growth was 4% in local currency (ruble) terms. During the year, we supplied the biosimilar Rituximab as part of the federal tender in Russia. We also launched OTC Nasivin, which is an



in-licensed product. The performance has been muted partially due to reduction in the channel inventory and due to season-related impact. We believe the growth rate should improve in FY2019. Nise, Omez, Ketorol, Cetrine, Ciprolet, Ibuclin, Nise gel, Novigan, Plagril, Razo, and Levolet continue to be brand leaders (each among the top three) in their respective categories, as reported by IMS Health in its moving report for the 12-month period ended 31 March 2018.

Revenue from CIS countries (including Romania) was ₹ 3.9 billion, representing 6% growth over the previous year. The growth was led by Ukraine and Kazakhstan through the increasing sale of existing products as well new launches. However, the growth was impacted due to temporary supply-related constraint in one of our key molecules in Romania.

During the year, we entered Brazil, Turkey and Algeria and scaled up our business in Columbia. Our focus is on institution business in most of these countries through biosimilars and oncology products. We have also grown well in the China market and expect it to be a relatively high growth market in the next few years.

Our strategy for growth in the emerging markets is to continue on the journey of expansion of biosimilars and oncology portfolio. We will focus on scaling up in our major markets, which include Russia, China, Brazil, South Africa and Ukraine.

#### EUROPE

**Revenue from Europe in FY2018 was ₹ 8.2 billion**, representing a growth of 8% compared to the previous year, partially benefiting from a favorable currency rate.

We have launched multiple new products in Germany and the UK during the year and also started making inroads into some new countries such as France, Italy, and Spain. Revenue growth was impacted due to a temporary supply disruption caused by non-renewal of GMP compliance status by the German regulatory authority during a part of the year. The matter has been satisfactorily resolved, and we expect the supplies to normalize in FY2019.

This market comprises 6% of the global generics sales. In the medium to long-term, we expect to grow in it by leveraging our in-house portfolio seeking in-licensing opportunities and scaling up business in the three new countries.

## INDIA

**Revenue from India in FY2018 was ₹ 23.3 billion**, representing a growth of 1% compared to previous year. India transitioned to the GST regime with effect from 1 July 2017, subsuming multiple indirect taxes, including excise duty and value-added tax. During the transition, there was a temporary disruption as the channel reduced inventory holdings. An increase in the GST rate for a portfolio of drugs also had to be absorbed by the company. In addition, there was a change in the method of reporting the indirect tax component.

Adjusted growth for the GST transition related impacts, stood at 8%. India constitutes 20% of GG segment revenues.

As per the IMS in its moving report for the 12-month period ended 31 March 2018, our growth has been 1.8% versus a market growth of 6.3%. This has been on account of inadequate performance in the therapeutic areas of cardiovascular and anti-diabetes (CVAD). We have initiated remediation measures and expect to perform better in the FY2019.

The company has been doing well on the portfolio of products acquired from UCB in April 2015. We further expanded our collaboration with AMGEN® to market and distribute KYPROLIS® (Carfilzomib) to treat relapsed multiple myeloma and REPATHA® (Evolocumab) to treat hypercholesterolemia, in addition to the three already-marketed products, XGEVA® (Denosumab), VECTIBIX® (Panitumumab), and PROLIA® (Denosumab).

In FY2019, our priorities are (a) driving productivity improvement, (b) focusing on our core therapeutic areas and big brands, and (c) scaling up our NCE launches done through the Amgen deal. In the medium to long-term, we



will focus on ramping up of biosimilars through internal and partnered assets and building differentiated products in relevant therapies, accompanied by a further ramping up of the base business.

## PSAI

**The PSAI business recorded revenues of ₹ 22 billion in FY2018**, which was a 3% growth over the previous year. During the year, 73 DMFs were filed globally, of which 12 were in the US.

In November 2015, we received a warning letter from the USFDA after the inspection of our API manufacturing facilities at Miryalaguda (Telangana) and Srikakulam (Andhra Pradesh).

These plants were re-inspected by the USFDA during February-April 2017. We received the Establishment Inspection Report (EIR) from the USFDA for the Miryalaguda facility, signalling the closure of all open observations. We have also received the EIR for the Srikakulam plant, although the USFDA has maintained an Official Action Indicated (OAI) status for this site. We continue to engage with the USFDA to resolve the pending issues.

Our strategy of building a sustainable growing business involves new product launches and ramping up of base businesses in key geographies. We will also leverage our relationship with key customers by supplying material that has value addition over being a 'plain-vanilla' API.

## PROPRIETARY PRODUCTS (PP)

**The PP business recorded revenue of ₹ 4.2 billion in FY2018**, with a growth of 80%. The revenue included a milestone receipt of ₹ 1.5 billion as part of the out-licensing deal of Impozz™

(clobetasol propionate) cream 0.025%, which was approved by the USFDA during the year. The sale for our first two products launched from the in-house pipeline - ZEMBRACE® and SERNIVO® - gradually picked up during the year.

We have filed an NDA for the migraine candidate DFN 02 (Sumatriptan intranasal spray). DFN-02 is a novel intranasal formulation for the treatment of acute migraine with or without aura. On the R&D front, our focus has been on advancing the development of the two in-licensed assets. These are:

- XP-23829 acquired from XenoPort, which is a clinical stage new oral entity that has the potential for the treatment of plaque psoriasis and may even be developed for relapsing forms of multiple sclerosis; and
- E7777, from Eisai, which is an anti-cancer agent.

In addition, work is on in developing some internal pipeline products that involve dermatological and neurological assets, which are in mid-to-late stage development.

In the medium term, we believe that growth should come from the launch and scale-up of differentiated products based on bio-pathways and existing products. In the long-term, the growth would be from highly differentiated assets and the NCE pipeline.

## USFDA OBSERVATIONS: AN UPDATE

As mentioned earlier, the USFDA issued a warning letter dated 5 November 2015 relating to Current Good Manufacturing Practice (cGMP) deviations at our API manufacturing facilities at Srikakulam, Andhra Pradesh and Miryalaguda, Telangana, as well as those at our



oncology formulation manufacturing facility at Duvvada, Visakhapatnam, Andhra Pradesh. The contents of the warning letter emanated from Form 483 observations that followed inspections of these three sites in November 2014, January 2015, and February-March 2015, respectively. Pending resolution of the issues identified in the warning letter, the USFDA has withheld the approval of new products from these facilities.

Subsequent to the warning letter, we promptly instituted corrective and preventive actions and submitted a comprehensive response to the USFDA, followed by periodic written updates and in-person meetings with the regulators. Moreover, to minimize the business impact, we transferred certain key products to alternative manufacturing facilities.

The USFDA subsequently re-inspected

these facilities between February and April 2017. The outcome of these inspections were as follows:

- API facility at Miryalaguda: The USFDA raised three observations in the areas of older methods of validation, improvements in instrument calibrations, and adherence to United States Pharmacopeia (USP) test methods;
- API facility at Srikakulam: The USFDA raised two observations in the areas of High Performance Liquid Chromatography (HPLC) maintenance and the management of soft copies of chromatograms; and
- Oncology formulation facility at Duvvada: The USFDA raised 13 observations in the areas of investigations, batch production records, document controls, general computer systems, and environmental monitoring.

Global corrective actions, as well as some specific measures, have already been implemented. Additionally, a detailed response was submitted to the USFDA, which included root cause, corrective and preventive actions, and impact assessment. The current status for these are as follows:

- API facility at Miryalaguda: In June 2017, the USFDA issued an EIR which officially closed the audit at this site;
- API facility at Srikakulam: In February 2018, we received an EIR, in which the USFDA maintained OAI status of the site. We received additional queries from the agency, and we would be submitting our response in due course; and
- Oncology formulation facility at Duvvada: In July 2017, we had a meeting with the USFDA and updated it of all the remedial actions taken. In November 2017,

**TABLE 2 CONSOLIDATED REVENUE MIX BY SEGMENTS**

PARTICULARS	(IN MILLION OF US\$ AND ₹)						
	FY2018			FY2017			GROWTH
	US\$	₹	%	US\$	₹	%	%
Global Generics	1,751	114,014	80	1,773	115,409	82	(1)
North America		59,822			63,601		(6)
Europe*		8,217			7,606		8
India		23,322			23,131		1
Emerging Markets#		22,653			21,071		8
PSAI	338	21,992	16	327	21,227	15	3
PP and Others	92	6,022	4	63	4,123	3	46
<b>Total</b>	<b>2,181</b>	<b>142,028</b>	<b>100</b>	<b>2,163</b>	<b>140,809</b>	<b>100</b>	<b>1</b>

Note:

\* Europe primarily includes Germany, the UK and out-licensing sales business.

# Emerging markets refer to Russia, other CIS countries, Romania and Rest of the World markets, including Venezuela.

**TABLE 3 CONSOLIDATED INCOME STATEMENT**

PARTICULARS	(IN MILLION OF US\$ AND ₹)						
	FY2018			FY2017			GROWTH
	US\$	₹	%	US\$	₹	%	%
Revenues	2,181	142,028	100.0%	2,163	140,809	100.0%	1%
Cost of revenues	1,009	65,724	46.3%	959	62,543	44.4%	5%
Gross profit	1,172	76,304	53.7%	1,203	78,356	55.6%	(3%)
Operating expenses							
Selling, general and administrative expenses	720	46,910	33.0%	712	46,372	32.9%	1%
Research and development expenses	281	18,265	12.9%	300	19,551	13.9%	(7%)
Other operating expense/(income)	(12)	(788)	(0.6%)	(16)	(1,065)	(0.8%)	(26%)
<b>Results from Operating Activities</b>	<b>183</b>	<b>11,917</b>	<b>8.4%</b>	<b>207</b>	<b>13,498</b>	<b>9.6%</b>	<b>(12%)</b>
Finance (income), net	(32)	(2,080)	(1.5%)	(12)	(806)	-0.6%	158%
Share of (profit) of equity accounted investees, net of income tax	(5)	(344)	(0.2%)	(5)	(349)	-0.2%	(1%)
<b>Profit before income tax</b>	<b>220</b>	<b>14,341</b>	<b>10.1%</b>	<b>225</b>	<b>14,653</b>	<b>10.4%</b>	<b>(2%)</b>
Income tax expense	70	4,535	3.2%	40	2,614	1.9%	73%
<b>Profit for the period</b>	<b>151</b>	<b>9,806</b>	<b>6.9%</b>	<b>185</b>	<b>12,309</b>	<b>8.5%</b>	<b>(19%)</b>
Diluted EPS (in ₹)		59.00			72.09		

we received an EIR for this; but the status of the site remains unchanged. We have invited the USFDA to schedule an inspection of the site.

We remain fully committed to follow high standards of quality and to strive towards further strengthening of our quality management systems and processes for sustainability. Our plans to enhance quality management systems and operations include improvements in the rigor of investigations and document control systems, standardization of instrument calibrations, strengthening controls with respect to information technology, strengthening shop floor training programs, and simplifying and standardizing operating procedures and batch records at the shop floor.

Further, we have initiated additional operational improvements with respect to areas such as shop floor supervision and Gemba walks (or process walks) in the shop floor, engineering, implementation of electronic batch records to eliminate manual errors, and an additional focus on the robustness of processes. Throughout the process of remediating issues raised in the warning letter, we have been continually engaged with the USFDA in conveying the progress we have made.

We are fully committed to producing safe and efficacious products for our patients.

## FINANCIALS

**Table 2** gives the abridged IFRS consolidated revenue performance of Dr. Reddy's for FY2018 compared to FY2017. **Table 3** gives the consolidated income statement.



## REVENUE

The total revenue grew by 1% to ₹ 142,028 million in FY2018. As previously mentioned, growth was impacted due to the significant price erosion in the US market, lower contribution from India due to GST transition, and temporary supply constraints in Europe on account of the German regulatory audit.

## GROSS PROFIT

Gross profit declined by 2.6% to ₹ 76,304 million in FY2018. This led to a gross profit margin of 53.7% in FY2018 - representing a decline of 1.9% points compared to FY2017. The gross profit margin for GG was 58.9%. For the PSAI business, it was 20.2%. The GG gross profit margin was impacted due to higher price erosion on account of channel consolidation and new competition in the US. PSAI's gross profit margin was affected due to an unfavorable product mix.

## SELLING, GENERAL, AND ADMINISTRATIVE (SG&A) EXPENSES

SG&A expenses increased marginally by 1% to ₹ 46,910 million in FY2018. Freight outward costs increased due to higher mix of air shipments. The increases were largely offset by a significant focus on cost optimization, especially by lower spends on legal and professional consultancy. SG&A accounted for 33% of sales in FY2018.

## R&D EXPENSES

R&D expenses for FY2018 were ₹ 18,265 million, or 12.9% of revenue versus 13.9% in FY2017. The absolute and proportional decrease in R&D spends is in line with our continued focus on cost optimization, productivity improvement, and prioritization of

projects, which have been executed in a manner that does not impinge on our focus on building the pipeline of complex generics, biosimilars, and differentiated products.

## NET FINANCE INCOME

The net finance income was ₹ 2,080 million in FY2018 versus ₹ 806 million in FY2017.

## INCOME TAX

For FY2018, income tax expense was ₹ 4,535 million, with an effective tax rate of 31.6%. This tax outgo was 73% higher than FY2017 (₹ 2,614 million and an effective tax rate of 17.8%). The FY2018 rate was higher due to a one-time charge taken during transition to a new tax regime in the US (Tax Cuts and Jobs Act of 2017). Adjusted for it, the effective tax rate is 22.5%. The lower tax rate in FY2017 was primarily on account of satisfactory resolution of certain tax matters pertaining to prior years.

## NET PROFIT

The net profit decreased by 19% to ₹ 9,806 million in FY2018. This represents a PAT margin of 6.9% of revenues versus 8.5% in FY2017.

## LIQUIDITY AND CAPITAL RESOURCES

The data is given in **Tables 4 and 5**. Cash generated from operating activities in FY2018 was ₹ 18,029 million. Investing activities amounting to ₹ 14,883 million in FY2018 include net investment in property, plant, equipment, and intangibles to build capacity and capabilities for future business growth. Cash outflow from financing activities was ₹ 4,440 million. Closing cash and cash equivalents as on 31 March 2018 was ₹ 2,542 million.

## DEBT-EQUITY

In FY2018, long-term borrowings, including the current and non-current portion, increased by ₹ 19,593 million. This was primarily to refinance short-term borrowings, which decreased by ₹ 18,064 million. As on 31 March 2018, the company's debt-to-equity ratio was 0.40, similar to last year. The net debt-to-equity position was at 0.24 versus 0.25 last year. **Table 6** gives the data.

## ENTERPRISE-WIDE RISK MANAGEMENT (ERM)

Dr. Reddy's ERM function operates with the following objectives:

- Proactively identify and highlight risks to the right stakeholder;
- Facilitate discussions around risk prioritization and mitigation;
- Provide a framework to assess risk capacity and appetite;
- Develop systems to warn when the appetite is being breached; and
- Provide an analysis of residual risk.

The ERM team connects with the company's business units and functions, which are the primary sources for risk identification. It also monitors external trends on liabilities and risks reported by peers in the industry.

ERM at Dr. Reddy's focuses on identification of key business, and operational and strategic risks. These are

carried out through structured interviews, on-call discussions, or review of incidents. The team collaborates with the company's compliance, Sarbanes-Oxley, and internal audit teams on operational, compliance, financial reporting, and process aspects to identify and mitigate risks of business units.

Risks are aggregated at the unit, function, and the organization levels and are categorized by risk groups. The company's response framework categorizes these risks into (i) preventable, (ii) strategic, and (iii) external risks. The finance, investment, and risk management (FIRM) council is Dr. Reddy's management committee that helps the ERM function to prioritize organization-wide risks and steer mitigation efforts in line with the company's risk capacity and appetite. The FIRM council also oversees financial risk management decisions.

Mitigation work carried out by the ERM team is periodically reviewed, and the progress on key risks is discussed with the FIRM council, the company's senior management, as well as at the risk management committee of the board of directors. These include (i) updates on the progress of mitigation of key risks and (ii) specific risk-related initiatives carried out during the year.

During FY2018, the ERM team focused on mitigation of certain country risks, assessing and reinforcing cyber security-related posture, and also conducted reviews of other operating risks.

## HUMAN RESOURCES (HR)

In line with our employee value proposition of providing meaningful opportunities for learning and growth, this year the focus has been on strengthening our internal talent management approach. The need to develop and groom leaders from within the organization is emphasised by the talent shortage in the industry that we operate in. With this objective in mind, we have taken a few initiatives such as institutionalizing processes for succession planning and engaging key talent.

Our new stint-based program for campus hires from premium technical and management institutes launched this year, is an endeavour in this direction. This program is a 15 month intensive learning journey with a structured set of operational and cross functional stints. It is designed to groom young talent for taking up challenging roles ahead. We also ran a development centre for our existing campus hires and empowered them to work on their strengths and areas of development through career conversations and leadership guidance.

We continue our flagship leadership development program called New Horizon Leadership Program (NHLP) for our senior leaders. This program delivered outstanding outcomes both in personal development and breakthrough business projects. We have extended the learnings from this program for the next level leaders to create our managerial development program (NHMP) which has also

**TABLE 4 CONSOLIDATED CASH FLOW ACCORDING TO IFRS**


PARTICULARS	₹ MILLION	
	FY2018	FY2017
Opening cash and cash equivalents	3,779	4,921
Cash flows from:		
(a) Operating activities	18,029	21,513
(b) Investing activities	(14,883)	(18,471)
(c) Financing activities	(4,440)	(3,692)
Effect of exchange rate changes	57	(492)
Closing cash and cash equivalent	2,452	3,779

**TABLE 5 CONSOLIDATED WORKING CAPITAL**

PARTICULARS	₹ MILLION		
	FY2018	FY2017	CHANGE
Trade receivables (A)	40,617	38,065	2,552
Inventories (B)	29,089	28,529	560
Trade payables (C)	16,052	13,417	2,635
Working capital (A+B-C)	53,655	53,178	477
Other current assets (D)	39,939	33,781	6,158
Total current assets (A+B+D)	109,645	100,375	9,270
Short & long-term loans and borrowings, current portion (E)	25,625	43,736	(18,111)
Other current liabilities (F)	28,015	27,847	168
Total current liabilities (C+E+F)	69,692	85,000	(15,308)

**TABLE 6 DEBT AND EQUITY POSITION**

PARTICULARS	₹ MILLION		
	AS ON 31 MARCH 2018	AS ON 31 MARCH 2017	CHANGE
Total shareholders' equity	126,460	124,044	2,416
Long-term debt (current portion)	63	110	(48)
Long-term debt (non-current portion)	25,089	5,449	19,640
Short-term borrowings	25,562	43,826	(18,064)
Total debt	50,714	49,185	1,528



Our employee engagement scores are among the top quartile globally

delivered similar outcomes. Focused efforts are also being made to upgrade leadership capability across plants.

Over the last year, our focus has also been on creating a culture of discipline and compliance in the manufacturing shop floor. We have introduced several interventions towards this, such as revamping our learning, rewards and recognition framework aligned to desired behaviours and business outcomes, enhancing employee connect through town halls and communication.

We continue with our efforts of building a diverse and inclusive workplace. This has been recognized with Dr. Reddy's featuring in first Sector-Neutral Bloomberg Gender-Equality Index. We are the only pharmaceutical company globally, and the only Indian company to make it to the list. The index measures gender equality across internal company statistics, employee policies, external community support and engagement, and gender-conscious product offerings. This is a validation of our people policies that go the extra mile to support our women colleagues. Within India also we strengthened our position as an employer of choice for women and have been ranked by Avatar as one of the best places to work for women.

We conducted an organization wide engagement survey for employees across geographies, levels and are happy to share that our engagement scores are amongst the top quartile globally. The survey measured the overall satisfaction, pride of association, recommendation and intent to stay. The results reflect the pride that employees feel in working with us and the confidence they place in our organization's future.

## OUTLOOK

FY2018 has been challenging on account of a significant price erosion in the US market, the GST transition impact in India, and the temporary supply disruption in Europe. While price competitiveness will remain the leitmotif in the US, we believe that the rate of price erosion peaked in FY2018 and ought to taper down. The other two disruptions were of temporary nature and should not have an impact on FY2019 performance.

At present, there remains the question of a final, favorable resolution of the USFDA's position vis-à-vis our API plant in Srikakulam and our oncological formulations facility in Duvvada. Although we have successfully transferred some of our key products from these plants to others, the fact remains that pending a successful conclusion, we are producing less than we should from these facilities and are constrained to introduce some high-value specialty products in the US. We are planning to request a USFDA reinspection in 2018, which, hopefully, will result in a favorable outcome. However, that remains an open issue as of date.

Even so, we believe that Dr. Reddy's will be able to improve its performance in FY2019. We are preparing for a set of new product launches in the US; we are expanding our footprint in emerging markets through volume growth and new launches; we expect to do better in Europe now that the setback on account of the German regulatory inspection is behind us; and we are striving to perform better than the overall market in India.

Despite the multiple headwinds being faced by the industry, we are cautiously optimistic of improving our performance in FY2019.

## CAUTIONARY STATEMENT

The management of Dr. Reddy's has prepared and is responsible for the financial statements that appear in this report. These are in conformity with International Financial Reporting Standards (IFRS), 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 writeup includes some forward-looking statement, within the meaning of section 27A of the US Securities Act of 1933, as amended and section 21E of the US Securities Exchange Act of 1934, as amended.

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, changes in government regulations, ability to successfully implement the strategy, manufacturing or quality control outcomes, ability to achieve expected results from investments in our product pipeline, change in market dynamics, technological change, currency fluctuations and exposure to various market risks. By their nature, these expectations and projections are only estimates and could be materially different from actual results in the future.

Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis and assumptions only as of the date hereof. In addition, readers should carefully review the other information in this annual report and in our periodic reports and other documents filed with all the stock exchanges.



# Five Years at a Glance

	(₹ MILLION)				
YEAR ENDING MARCH 31	2018	2017	2016	2015	2014
<b>INCOME STATEMENT DATA</b>					
Revenues	142,028	140,809	154,708	148,189	132,170
Cost of revenues	65,724	62,453	62,427	62,786	56,369
<b>Gross profit</b>	<b>76,304</b>	<b>78,356</b>	<b>92,281</b>	<b>85,403</b>	<b>75,801</b>
as a % of revenues	53.7	55.6	59.6	57.6	57.4
<b>Operating expenses</b>					
Selling, general and administrative expenses*	46,910	46,372	45,702	42,585	38,783
Research and development expenses	18,265	19,551	17,834	17,449	12,402
Other operating (income)/expenses, net	(788)	(1,065)	(874)	(917)	(1,416)
<b>Total operating expenses</b>	<b>64,387</b>	<b>64,858</b>	<b>62,662</b>	<b>59,117</b>	<b>49,769</b>
<b>Operating income</b>	<b>11,917</b>	<b>13,498</b>	<b>29,619</b>	<b>26,286</b>	<b>26,032</b>
as a % of revenues	8.4	9.6	19.1	17.7	19.7
<b>Finance costs, net:</b>					
Finance income	2,897	1,587	2,251	2,774	1,674
Finance expenses	(817)	(781)	(4,959)	(1,092)	(1,274)
<b>Finance (expense)/income, net</b>	<b>2,080</b>	<b>806</b>	<b>(2,708)</b>	<b>1,682</b>	<b>400</b>
Share of profit of equity accounted investees, net of income tax	344	349	229	195	174
<b>Profit before income tax</b>	<b>14,341</b>	<b>14,653</b>	<b>27,140</b>	<b>28,163</b>	<b>26,606</b>
Income tax benefit/(expense)	(4,535)	(2,614)	(7,127)	(5,984)	(5,094)
<b>Profit for the year</b>	<b>9,806</b>	<b>12,039</b>	<b>20,013</b>	<b>22,179</b>	<b>21,512</b>
as a % of revenues	6.9	8.5	12.9	15.0	16.3
Earnings per share (₹)					
- Basic	59	72	117	130	127
- Diluted	59	72	117	130	126
Dividend declared per share (₹)	20	20	20	20	18
<b>BALANCE SHEET DATA</b>					
Cash and cash equivalents, net of bank overdraft	2,542	3,779	4,921	5,394	8,451
Operating working capital**	53,655	53,178	58,584	55,624	46,526
Total assets	225,604	219,821	207,650	194,762	170,223
Total long-term debt, excluding current portion	25,089	5,449	10,685	14,307	20,740
Total stockholders' equity	126,460	124,044	128,336	111,302	90,801
<b>ADDITIONAL DATA</b>					
Net cash provided by/(used in):					
Operating activities	18,029	21,513	41,247	25,033	19,463
Investing activities	(14,883)	(18,471)	(20,423)	(22,904)	(16,620)
Financing activities	(4,440)	(3,692)	(17,001)	(4,118)	(217)
Effect of exchange rate changes on cash	57	(492)	(4,296)	(1,068)	771
Expenditure on property, plant and equipment and intangibles	(11,043)	(40,984)	(14,875)	(15,327)	(10,627)

## Notes:

\* Includes impairment of goodwill and other intangibles and reversal of impairment. Figures are restated for previous years

\*\* Operating working capital = Trade receivables (current) + inventories - Trade payables

# Key Financial Ratios

YEAR ENDING MARCH 31	2018	2017	2016	2015	2014
<b>PROFITABILITY RATIOS</b>					
EBITDA margin %	17%	18%	23%	24%	25%
Gross margin %	54%	56%	60%	58%	57%
Global Generics	59%	62%	66%	65%	66%
PSAI	20%	21%	22%	22%	20%
Adjusted PAT* margin %	7%	9%	13%	15%	16%
<b>ASSET PRODUCTIVITY RATIOS</b>					
Fixed asset turnover	2.5	2.5	3.0	3.2	3.2
Total assets turnover	0.6	0.7	0.8	0.8	0.8
<b>WORKING CAPITAL RATIOS</b>					
Working capital days	194	204	193	198	188
Inventory days	154	160	149	145	152
Debtors days	102	96	99	95	86
Creditor days	62	51	55	42	50
<b>GEARING RATIOS</b>					
Net debt/Equity	0.24	0.25	(0.05)	0.03	0.12
<b>VALUATION RATIOS</b>					
Earnings per share (₹) diluted	59.0	72.1	117.0	129.7	126.0
Book value per share (₹)	763	743	750	651	532
Dividend payout	34%	28%	17%	15%	14%
Trailing price/Earnings ratio	35.3	36.5	25.9	26.9	20.3

**Notes:**

- (1) Fixed asset turnover: Net sales/Average Net fixed assets (property, plant and equipment)
- (2) Total asset turnover: Net sales/Average total assets
- (3) Working capital days: Inventory days + Receivable days - Payable days
- (4) Inventory days for FY2018: (Average of closing inventory - as on end of September 2017 and March 2018)/(Cost of revenue during last 6 months) \* 182
- (5) Receivable days: Outstanding receivables netted-off with the daily average sales; starting from the latest month
- (6) Payable days for FY2018: (Average of closing payables - as on end of December 2017 and March 2018)/(Material cost during last 3 months) \* 90
- (7) Book value per share: Equity/Outstanding equity shares
- (8) Dividend payout: DPS/EPS
- (9) Trailing price: Closing share price on the last working day of March

\* PAT adjusted for non-cash impairment charge and other non-recurring costs if any

# Corporate Governance

Dr. Reddy's Laboratories Limited ('Dr. Reddy's' or 'the company') believes that timely disclosures, transparent accounting policies coupled with a strong and independent board go a long way in maintaining good corporate governance, preserving shareholders' trust and maximizing long-term corporate value. The company'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 accurate information to 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 of internal controls, risk management and financial reporting;

- Protection and facilitation of shareholders' rights; and
- Adequate, timely and accurate disclosure of all material operational and financial information to stakeholders.

In India, the Securities and Exchange Board of India (SEBI) regulates corporate governance for listed companies through SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations). Dr. Reddy's is in full compliance with all the applicable provisions of SEBI's corporate governance norms. It is also in compliance with the appropriate corporate governance standards of the New York Stock Exchange Inc. (NYSE).

This chapter, together with information given in the chapters on *Management Discussion and Analysis* and *Additional*

*Shareholders' Information*, constitute Dr. Reddy's report on corporate governance for 2017-18 (or FY2018).

## BOARD OF DIRECTORS COMPOSITION

As on 31 March 2018, the board of Dr. Reddy's had 10 directors, comprising (i) two executive directors, including the chairman of the board, and (ii) eight independent directors as defined under the Companies Act, 2013, the Listing Regulations and the Corporate Governance Guidelines of the NYSE Listed Company Manual. Their detailed profiles are given in this annual report.

The directors have expertise in the fields of strategy, management, finance, operations, science, technology, human resource development and economics.

**TABLE 1** COMPOSITION OF DR. REDDY'S BOARD AND OTHER DIRECTORSHIPS HELD AS ON 31 MARCH 2018

NAME	POSITION	RELATIONSHIP WITH OTHER DIRECTORS	DATE OF JOINING	DIRECTORSHIPS UNDER SECTION 165 OF THE COMPANIES ACT, 2013		OTHER DIRECTORSHIPS <sup>(1)</sup>	COMMITTEE MEMBERSHIPS <sup>(2)</sup>	COMMITTEE CHAIRMANSHIPS <sup>(2)</sup>
				PUBLIC COMPANIES	PRIVATE COMPANIES			
Mr. K Satish Reddy	Chairman	Brother-in-law of Mr. G V Prasad	18 January 1993	10	7	20	1	-
Mr. G V Prasad	Co-Chairman, managing director and CEO	Brother-in-law of Mr. K Satish Reddy	8 April 1986	10	4	7	1	-
Dr. Omkar Goswami	Independent director	None	30 October 2000	8	2	-	7	-
Mr. Anupam Puri	Independent director	None	4 June 2002	3	-	1	1	-
Ms. Kalpana Morparia	Independent director	None	5 June 2007	2	1	1	-	1
Dr. Bruce LA Carter	Independent director	None	21 July 2008	2	-	4	1	-
Mr. Sridar Iyengar	Independent director	None	22 August 2011	5	1	4	1	3
Mr. Bharat N Doshi	Independent director	None	11 May 2016	5	-	3	2	1
Mr. Hans Peter Hasler	Independent director	None	17 June 2016	1	-	5	-	-
Mr. Prasad R Menon	Independent director	None	30 October 2017	3	1	2	-	1

<sup>(1)</sup> Other directorships are those, which are not covered under section 165 of the Companies Act, 2013.

<sup>(2)</sup> Membership/chairmanship in audit and stakeholders' relationship committees of all public limited companies, whether listed or not, including Dr. Reddy's are considered. Membership/chairmanship of foreign companies, private limited companies and those under section 8 of the Companies Act, 2013 have been excluded. Membership/chairmanship of our nomination, governance and compensation committee; science, technology and operations committee; corporate social responsibility committee; banking and authorizations committee and risk management committee are also excluded.

<sup>(3)</sup> None of the independent directors serves as an independent director in more than seven listed companies.

FY2018 represents fiscal year 2017-18 from 1 April 2017 to 31 March 2018, and analogously for FY2017 and previously such labeled years.

The board provides leadership, strategic guidance, objective and independent views to the company's management while discharging its fiduciary responsibilities, thereby ensuring that the management adheres to high standards of ethics, transparency and disclosure.

The board regularly reviews the company's governance, risk and compliance framework, business plans, and organization structure to align with the highest global standards.

Each director informs the company on an annual basis about the board and board committee positions she/he occupies in other companies, and notifies it of any changes regarding their directorships. In addition, the independent directors provide an annual confirmation that they meet the criteria of independence as defined under Indian laws.

**Table 1** gives the composition of Dr. Reddy's board, with all relevant details.

#### **TERM OF BOARD MEMBERSHIP**

The board, on recommendations of the nomination, governance and compensation committee, considers the appointment and reappointment of directors.

Section 149(10) of the Companies Act, 2013, provides that an independent director shall hold office up to five consecutive years on the board of a company and shall be eligible for re-appointment on passing of a special resolution by the shareholders. Moreover, independent directors cannot retire by rotation. Accordingly, all independent directors of Dr. Reddy's were appointed as such for terms ranging from one to five years at the 30th annual general meeting of the company. The term of Mr. Anupam Puri, an independent director, ends at the forthcoming 34th annual general meeting. Considering the outcome of his performance evaluation, the board has recommended the reappointment of Mr. Puri as an independent director under section 149 of the Companies Act, 2013 for another term of one year, for approval of the shareholders at the forthcoming 34th AGM scheduled on 27 July 2018.

Section 152 of the Companies Act, 2013, states that one-third of the board members other than independent

directors who are subject to retire by rotation, shall do so every year and be eligible for reappointment, if approved by the shareholders. Mr. K Satish Reddy, retires by rotation at the forthcoming annual general meeting and, being eligible, seeks re-appointment. Additionally, Mr. Prasad R Menon was appointed as an additional director of the company, categorized as Independent with effect from 30 October 2017. Thus, in the forthcoming annual general meeting, approval of shareholders is being sought for:

- i. Reappointment of Mr. K Satish Reddy, who retires by rotation and, being eligible, offers himself for the reappointment.
- ii. Reappointment of Mr. Anupam Puri as an independent director under section 149 of the Companies Act, 2013 for a term of one year.
- iii. Appointment of Mr. Prasad R Menon as an independent director under section 149 of the Companies Act, 2013 for a term of five years with effect from 30 October 2017.

#### **SELECTION AND APPOINTMENT OF NEW DIRECTORS**

Recommending any new member on the board is the responsibility of the nomination, governance and compensation committee of the board, which consists entirely of independent directors. Given the existing composition of the board, the tenure as well as the years left of the existing members to serve on the board, and the need for new domain expertise are reviewed by this committee. When such a need becomes apparent, the committee reviews potential candidates in terms of their expertise, attributes, personal and professional backgrounds and their ability to attend meetings in India. It then places the details of shortlisted candidates to the board for its consideration. If the board approves, the person is appointed as an additional director, subject to the approval of shareholders in the company's next general meeting.

#### **FAMILIARIZATION PROCESS FOR INDEPENDENT DIRECTORS**

To familiarize a new independent director with the company, an information kit containing documents about the company – such as its annual reports, sustainability reports, investor

presentations, recent press releases, research reports, code of business conduct and ethics (COBE) and the memorandum and articles of association – is provided. The new independent director individually meets with board members and senior management. Visits to plants are organized for the director to understand the company's operations.

Dr. Reddy's believes that the board should be continuously empowered with knowledge of latest developments affecting the company and the industry. Apart from regular presentations on company's business strategies and associated risks, expositions are made on various topics covering the pharmaceutical industry. Updates on relevant statutory changes and judicial pronouncements around industry-related laws are regularly circulated to the directors. They also visit the company's manufacturing and research locations. Each director has complete and unfettered access to any of the company's information and full freedom to interact with senior management.

Details of the familiarization programs for independent directors are available on the company's website [www.drreddys.com/media/643664/familiarization-programs-2018.pdf](http://www.drreddys.com/media/643664/familiarization-programs-2018.pdf)

#### **LETTER OF APPOINTMENT**

Upon their appointment, independent directors are given a formal appointment letter containing, *inter alia*, the term of appointment, roles, function, duties and responsibilities, the company's code of conduct, disclosures and confidentiality. For such terms and conditions, see: [www.drreddys.com/investor/governance/policies-and-documents/terms-condition-directors.html](http://www.drreddys.com/investor/governance/policies-and-documents/terms-condition-directors.html)

#### **BOARD EVALUATION**

The board carries out an annual evaluation of its performance, the working of its committees and members. On two such occasions, an independent expert was engaged to conduct the evaluation process. For the annual internal evaluation, each director completes a questionnaire that involves peer evaluation and feedback on processes of the board and its committees. The contribution and impact of individual members is evaluated on a number of parameters,

such as level of engagement, independence of judgment, conflicts resolution and contributions to enhance the board's overall effectiveness. Peer ratings on certain parameters, positive attributes and improvement areas for each director are provided to them on a confidential basis.

The committees are evaluated on certain parameters such as effective discharge of their roles, responsibilities and advice given to the board for discharging its fiduciary responsibilities, including adequate and periodical updates to the board on the committees' functioning.

### DIRECTORS' SHAREHOLDING IN THE COMPANY

Table 2 gives details of shares/ADRs held by the directors as on 31 March 2018.

### MEETINGS OF THE BOARD

The company plans and prepares the schedule of the board and board committee meetings eighteen to twenty four months in advance. The schedule of meetings and their agenda are finalized in consultation with the chairman of the board and committee chairpersons. Agendas are circulated in advance with appropriate presentations, detailed notes, supporting documents and executive summaries.

Under Indian laws, the board of directors must meet at least four times a year, with a maximum gap of 120 days between two board meetings. Dr. Reddy's board met five times during the financial year under review: on 12 May 2017, 27 July 2017, 31 October 2017, 25 January 2018 and 26 March 2018. Details of directors' attendance at board meetings and the AGM are given in Table 3.

The board and its committee meetings at Dr. Reddy's typically comprise structured two-day sessions.

### INFORMATION GIVEN TO THE BOARD

Among others, the company provides the following information to the board and its committees.

- Annual operating plans and budgets, capital budgets and other updates;
- Quarterly, half-yearly and annual financial results of the company and its operating divisions or business segments;
- Detailed presentations on the progress in research and development (R&D) and new drug discoveries;
- Minutes of meetings of the audit committee and other committees of the board;
- Information on recruitment and remuneration of key executives below the board level including chief financial officer and the company secretary;
- Significant regulatory matters concerning Indian or foreign regulatory authorities;
- Issues which involves possible public or product liability claims of a substantial nature, if any;
- Risk analysis of various products, markets and businesses;
- Detailed analysis of potential acquisition targets and possible divestments;
- Details of any joint venture or collaboration agreements;
- Transactions that involve substantial payment towards, or impairment of, goodwill, brand equity or intellectual property;
- Significant sale of investments, subsidiaries, assets which are not in the normal course of business;
- Contracts/arrangements in which director(s) are interested;
- Materially important show cause, demand, prosecution and penalty notices, if any;
- Fatal or serious accidents or dangerous occurrences, if any;
- Significant effluent or pollution problems, if any;
- Material default in financial obligations to and by the company or substantial non-payment for goods sold by the company, if any;

**TABLE 2** SHARES/ADRs HELD BY THE DIRECTORS AS ON 31 MARCH 2018

NAME	NO. OF SHARES/ADRs HELD
Mr. K Satish Reddy <sup>(1)</sup>	1,019,332
Mr. G V Prasad <sup>(1)</sup>	1,179,140
Dr. Omkar Goswami	22,800
Mr. Anupam Puri (ADRs)	13,500
Ms. Kalpana Morparia	10,800
Dr. Bruce LA Carter (ADRs)	7,800
Mr. Sridar Iyengar	-
Mr. Bharat N Doshi	1,000
Mr. Hans Peter Hasler	-
Mr. Prasad R Menon	-

<sup>(1)</sup> APS Trust owns 83.11% of Dr. Reddy's Holdings Limited, which in turn owns 41,083,500 shares of Dr. Reddy's Laboratories Limited. Mr. G V Prasad, Mr. K Satish Reddy, Mrs. G Anuradha, Mrs. Deepti Reddy and their bloodline descendants are the beneficiaries of APS Trust.

**TABLE 3** DIRECTORS' ATTENDANCE AT BOARD MEETINGS AND THE AGM, FY2018

NAME	MEETINGS HELD IN DIRECTOR'S TENURE	NUMBER OF BOARD MEETINGS ATTENDED	ATTENDANCE IN LAST AGM ON 28 JULY 2017
Mr. K Satish Reddy	5	4 <sup>(1)(2)</sup>	Present
Mr. G V Prasad	5	5	Present
Dr. Omkar Goswami	5	4 <sup>(1)</sup>	Present
Mr. Anupam Puri	5	3 <sup>(1)(3)</sup>	Present
Ms. Kalpana Morparia	5	5	Present
Dr. Bruce LA Carter	5	4 <sup>(1)(2)</sup>	Present
Dr. Ashok S Ganguly*	2	1 <sup>(1)</sup>	Absent
Mr. Sridar Iyengar	5	5	Present
Mr. Bharat N Doshi	5	5	Present
Mr. Hans Peter Hasler	5	3 <sup>(1)(2)</sup>	Present
Mr. Prasad R Menon**	3	2 <sup>(1)</sup>	Not Applicable

<sup>(1)</sup> Was given leave of absence on request.

<sup>(2)</sup> Attended one meeting through tele-conference.

<sup>(3)</sup> Attended two meetings through tele-conference.

\* Term ended on 28 July 2017 as an independent director.

\*\* Appointed with effect from 30 October 2017 as an independent director.

- Significant labor problems and their proposed solutions, if any;
- 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 shareholders' services such as non-payment of dividend and delays in share transfer, if any;
- Subsidiary companies' minutes, financial statements, significant transactions and investments; and
- Significant transactions and arrangements.

#### POST-MEETING FOLLOW-UP MECHANISM

Important decisions taken by the board and its committees are promptly communicated to the concerned departments or divisions. Action taken/status reports on decisions of the previous meeting(s) are followed-up and placed at the next meeting for information and further recommended actions, if any.

#### MEETINGS OF INDEPENDENT DIRECTORS

During FY2018, the independent directors of Dr. Reddy's met five times in executive sessions without the presence of executive directors and other members of management. The company is ready to facilitate more such sessions as and when required by the independent directors. During these meetings, the independent directors reviewed the performance of the company and its senior management, that of the chairman and the board, corporate strategy, risks, competition, succession planning for the board and senior management and the information given to the Board.

#### ANNUAL BOARD RETREAT

During FY2018, the annual board retreat was organized at Hyderabad, India on 21-23 August 2017, where the board conducted a detailed strategy review of the company's business segments and discussed various governance related matters.

#### DIRECTORS' REMUNERATION

The company has a policy for the remuneration of directors, key managerial personnel (KMPs), senior management personnel (SMPs) and other employees. The remuneration policy is enclosed as **Annexure A** to this chapter. It lays down principles and parameters to ensure

that remunerations are competitive, reasonable, and in line with corporate and individual performance.

Executive directors are appointed by shareholders' resolution for a period of five years. No severance fee is payable to them. Except the commission payable, all other components of remuneration to the executive directors are fixed in line with the company's policies. Their annual remuneration, including commission based on standalone net profits of the company, is recommended by the nomination, governance and compensation committee to the board for its consideration. The committee also takes into account corporate performance in a given year and the key performance indicators (KPIs). The remuneration are within the limits approved by shareholders. Perquisites and retirement benefits are paid in accordance with the company's compensation policies, as applicable to all employees.

Independent directors are entitled to receive sitting fees, commission based on the standalone net profits of the company and reimbursement of any expenses for attending meetings of the board and its committees. Such remuneration, including commission payable, is in conformity with the

**TABLE 4 REMUNERATION PAID OR PAYABLE TO THE DIRECTORS FOR FY2018**

NAME	SALARIES	PERQUISITES <sup>(1)</sup>	COMMISSION <sup>(2)</sup>	TOTAL
Mr. K Satish Reddy	12,165	3,302	42,000	57,467
Mr. G V Prasad	18,515	8,965	50,000	77,480
Dr. Omkar Goswami	-	-	6,967	6,967
Mr. Anupam Puri	-	-	8,887	8,887
Ms. Kalpana Morparia	-	-	7,292	7,292
Dr. Bruce L A Carter	-	-	7,683	7,683
Dr. Ashok S Ganguly <sup>(3)</sup>	-	-	2,995	2,995
Mr. Sridar Iyengar	-	-	8,008	8,008
Mr. Bharat N Doshi	-	-	8,595	8,595
Mr. Hans Peter Hasler	-	-	6,934	6,934
Mr. Prasad R Menon <sup>(4)</sup>	-	-	3,321	3,321

<sup>(1)</sup> Perquisites include medical reimbursement for self and family according to the rules of the company, leave travel assistance, personal accident insurance, leave encashment, long service award, company's vehicle with driver for official use, telephone at residence and mobile phone, contribution to provident fund and superannuation scheme. All these benefits are fixed in nature.

<sup>(2)</sup> Payment of commission is variable, and based on the percentage of net profit calculated according to section 198 of the Companies Act, 2013. The board of directors recommended for a fixed commission of ₹ 4,036,820 (US\$ 62,000) per Independent director; a specific amount of ₹ 1,302,200 (US\$ 20,000) to the chairman of the audit committee; ₹ 976,650 (US\$ 15,000) to the chair of science, technology and operations committee; the nomination, governance and compensation committee; the risk management committee; the corporate social responsibility committee; and the stakeholders' relationship committee; ₹ 651,100 (US\$ 10,000) to the other members of the committees; ₹ 1,302,200 (US\$ 20,000) to the lead independent director; ₹ 325,550 (US\$ 5,000) variable fee per meeting based on the attendance at the board meeting to every independent director. Other than the above, a specific amount of ₹ 97,665 (US\$ 1,500) per meeting was paid towards foreign travel of the directors.

<sup>(3)</sup> Remuneration for part of the year, term ended on 27 July 2017 as an independent director.

<sup>(4)</sup> Remuneration for part of the year, appointed with effect from 30 October 2017 as an independent director.

<sup>(5)</sup> Apart from receiving the above remuneration, the non-executive directors do not have any pecuniary relationship or transaction with the company.

provisions of the Companies Act, 2013, and has been considered and approved by the board and the shareholders. The company, in compliance with section 197 of the Companies Act, 2013, and the Listing Regulations, has not granted any stock options to independent directors since FY2013. Remuneration paid or payable to the directors for FY2018 is given in **Table 4**.

### INDEPENDENT DIRECTORS

Independent directors of Dr. Reddy's head the following governance and/or board committee functions:

- Mr. Anupam Puri: Governance, corporate strategy, lead independent director and nomination, governance and compensation committee;
- Dr. Bruce L A Carter: The science, technology and operations committee;
- Dr. Ashok S Ganguly (term ended on 28 July 2017): The nomination, governance and compensation committee;
- Mr. Sridar Iyengar: The audit committee, and all financial and audit matters that fall under the remit of the committee plus being the ombudsperson for the company's whistle-blower policy;
- Ms. Kalpana Morparia: The stakeholders' relationship committee;
- Dr. Omkar Goswami: The risk management committee, financial risk management, subsidiary finances and compliance with section 404 of the US Sarbanes-Oxley Act, 2002; and
- Mr. Bharat N Doshi: The corporate social responsibility committee.

### COMMITTEES OF THE BOARD

Dr. Reddy's has seven board-level committees, whose details are given below.

#### 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 with the responsibility to supervise these processes and ensure

accurate and timely disclosures that maintain the transparency, integrity and quality of financial control and reporting.

The primary functions of the audit committee are to:

- Supervise the financial reporting process;
- Review the quarterly and annual financial statements/results before placing them to the board along with audit/limited review report, 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, scope and process 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 remuneration;
- Recommend the appointment of cost auditors;
- Review the independence of auditors;
- Ensure that adequate safeguards have been taken for legal compliance for the company and its subsidiaries;
- Review the financial statements, in particular, investments made by all the subsidiary companies;
- Review and approval of related party transactions;
- Review the functioning of whistle-blower mechanism;
- Review the implementation of applicable provisions of the Sarbanes-Oxley Act, 2002;
- Scrutinize inter-corporate loans and investments;
- Examine the valuation of undertakings or assets of the company, wherever necessary;
- Evaluate internal financial controls; and
- Review suspected fraud, if any, committed against the company.

The audit committee entirely comprises of independent directors. All members are financially literate and bring in expertise in the fields of finance, economics, human resource development, strategy and management. The committee comprises Mr. Sridar Iyengar (chairman), Dr. Omkar Goswami and Mr. Bharat N Doshi.

The audit committee met six times during the year: on 3 April 2017, 11 May 2017, 27 July 2017, 30 October 2017, 24 January 2018 and 26 March 2018. It also met the key members of finance team and internal audit team along with the chairman and the CFO to discuss matters relating to audit, assurance and accounting. During the year, the committee also met statutory auditors without the presence of the management. In addition, the chairman of the committee and other members met to review other processes, particularly the internal control mechanisms to prepare for certification under section 404 of the Sarbanes-Oxley Act, 2002, and subsidiary governance oversight.

The company is in compliance with the provisions of the regulation 18 of the Listing Regulations, as amended, on the time gap between any two successive audit committee meetings. **Table 5** gives the composition and attendance record of the audit committee.

The chairman, CFO and the chief internal auditor are permanent invitees to all the audit committee meetings. The company's statutory auditors are also present. The company secretary officiates as the secretary of the committee.

Audit committee meetings are generally preceded by pre-audit committee conference calls with the members, the CFO, the internal audit and compliance teams, external auditors and other key finance personnel of the company. During these calls, major audit related matters are discussed and items that need further face-to-face discussion at the audit committee meetings are identified.

The internal and statutory auditors of the company discuss their findings and updates, and submit their views directly to the committee. Separate discussions 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. Permissible non-audit related services undertaken by the statutory and independent auditors are also pre-approved by the committee.

The audit committee also reviews the performance and remuneration of the chief internal auditor (CIA) and chief compliance officer (CCO).

The report of the audit committee is enclosed as **Exhibit 1** to this chapter.

### NOMINATION, GOVERNANCE AND COMPENSATION COMMITTEE

The nomination, governance and compensation committee also entirely consists of independent directors. Its primary functions are to:

- Examine the structure, composition and functioning of the board, and recommend changes, as necessary, to improve the board's effectiveness;
- Formulate policies on the remuneration of directors, KMPs and other senior employees and on board-level diversity;
- Formulate criteria for evaluation of independent directors and the board;
- 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 ensure that Dr. Reddy's is at the forefront of good governance practices; and

- Regularly examine ways to strengthen organizational health, by improving 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, the resulting compensation awards, and makes appropriate proposals for board approval. In particular, it recommends all forms of compensation to be granted to the executive directors, KMPs and senior management of the company.

The head of human resources (HR) makes periodic presentations to the committee on organization structure, talent management, leadership, succession, diversity, performance appraisals, increments, performance bonus recommendations and other HR matters.

The committee met four times during the year: on 11 May 2017, 28 July 2017, 30 October 2017 and 24 January 2018. The co-chairman, managing director and CEO is a permanent invitee to all such committee meetings. The head of HR officiates as the secretary of the committee. **Table 6** gives the composition and attendance record of the committee, and the report of the committee is enclosed as **Exhibit 2** to this chapter.

### SCIENCE, TECHNOLOGY AND OPERATIONS COMMITTEE

The science, technology and operations committee of the board also entirely comprises independent directors. Its primary functions 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 external research organizations;
- Assist the board and management to stay abreast of novel scientific and technologies developments and innovations; anticipate emerging concepts and trends in therapeutic research and development; and be assured that the company is making well-informed choices in committing its resources;
- Assist the board and 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 line with the company's business strategy.

The co-chairman, managing director and CEO is a permanent invitee to all committee meetings. Officials heading IPDO, proprietary products and biologics are secretaries to the committee with regard to their respective business.

The committee met four times during the year: on 11 May 2017, 27 July 2017, 30 October 2017 and

**TABLE 5** AUDIT COMMITTEE MEMBERSHIP AND ATTENDANCE IN FY2018

COMMITTEE MEMBERS	POSITION	MEETINGS HELD IN THE DIRECTOR'S TENURE	MEETINGS ATTENDED
Mr. Sridar Iyengar	Chairman	6	6
Dr. Omkar Goswami	Member	6	4 <sup>(1)</sup>
Ms. Kalpana Morparia*	Member	3	3
Mr. Bharat N Doshi	Member	6	6

\* Ceased to be a member of the committee with effect from 30 October 2017.

<sup>(1)</sup> Was given leave of absence on request.

**TABLE 6** NOMINATION, GOVERNANCE AND COMPENSATION COMMITTEE MEMBERSHIP AND ATTENDANCE IN FY2018

COMMITTEE MEMBERS	POSITION	MEETINGS HELD IN THE DIRECTOR'S TENURE	MEETINGS ATTENDED
Mr. Anupam Puri*	Chairman	4	3 <sup>(1)(2)</sup>
Dr. Ashok S Ganguly**	Member	2	1 <sup>(1)</sup>
Ms. Kalpana Morparia***	Member	2	2
Mr. Bharat N Doshi	Member	4	4
Mr. Prasad R Menon****	Member	2	1 <sup>(1)</sup>

\* Appointed as chairman, with effect from 28 July 2017.

\*\* Term ended on 28 July 2017 as an independent director.

\*\*\* Ceased to be a member of the committee with effect from 30 October 2017.

\*\*\*\* Appointed as a member of the committee with effect from 30 October 2017.

<sup>(1)</sup> Was given leave of absence on request.

<sup>(2)</sup> Attended one meeting through tele-conference.



24 January 2018. **Table 7** gives the composition and attendance record of the committee, and report of the committee is enclosed as **Exhibit 3** to this chapter.

### RISK MANAGEMENT COMMITTEE

The risk management committee also consists entirely of independent directors. Its key functions are to:

- Discuss with senior management Dr. Reddy's enterprise risk; management (ERM) and provide such oversight as may be needed;
- Ensure that it is apprised of the most significant risks along with mitigating actions; and
- Review risk disclosure statements in any public documents or disclosures, where applicable.

The company has in place an enterprise-wide risk management system. The risk management committee of the board oversees and reviews the risk management framework as well as the assessment of risks, their management and mitigation procedures. The committee reports its findings and observations to the board. A section on risk management practices of the company under the ERM framework forms a part of the chapter on *Management Discussion and Analysis* in this annual report.

The chairman, COO, CIA and the CCO are permanent invitees to all risk management committee meetings. The CFO officiates as the secretary of the committee. The committee met thrice during the year: on 11 May 2017, 30 October 2017, and 24 January 2018. **Table 8** gives the composition and attendance record of the committee, and the committee's report is enclosed as **Exhibit 4** to this chapter.

### STAKEHOLDERS' RELATIONSHIP COMMITTEE

The stakeholders' relationship committee is empowered to perform the functions of the board relating to the handling of queries and grievances of security holders. It primarily focuses on:

- Investor complaints and their redressal;
- Review of queries received from investors;
- Review of work done by the share transfer agent including their service standards; and
- Review of corporate actions related to security holders.

The committee also periodically review the company's plans on stakeholders engagement.

The committee consists of four directors, including the two executive directors. The chairperson is an independent director. The committee met four times during the year: on 12 May 2017, 27 July 2017, 30 October 2017 and 24 January 2018. **Table 9** gives the composition and attendance record of the committee, and its report is enclosed as **Exhibit 5** to this chapter.

The company secretary officiates as the secretary of the committee and is also designated as the compliance officer in terms of Listing Regulations. An analysis of investor queries and complaints received and responded/addressed during the year is given in the chapter on *Additional Shareholders' Information*.

### CORPORATE SOCIAL RESPONSIBILITY (CSR) COMMITTEE

The committee consists of three directors, including the two executive directors. The chairman is an independent director. The CSR committee's primary functions are to:

- Formulate, review and recommend to the board, a CSR policy indicating the activities to be undertaken by the company as specified in schedule VII of the Companies Act, 2013;
- Recommend the amount of expenditure to be incurred on the initiatives as per the CSR policy;
- Provide guidance on various CSR initiatives undertaken by the company and monitor their progress; and
- Monitor implementation and adherence to the CSR policy of the company from time to time.

The CSR committee met four times during the year: on 12 May 2017, 27 July 2017, 30 October 2017 and 24 January 2018. The head of CSR officiates as the secretary of the committee. **Table 10** gives the composition and attendance record of the committee, and its report is enclosed as **Exhibit 6** to this chapter.

### BANKING AND AUTHORIZATIONS COMMITTEE

The banking and authorizations committee allows executive directors and selected officers of the company to deal with day-to-day business operations such as banking, treasury, insurance, excise, customs, administration and dealing with other government/non-government authorities. It consists of two executive directors; and it met five times during

**TABLE 7 SCIENCE, TECHNOLOGY AND OPERATIONS COMMITTEE MEMBERSHIP AND ATTENDANCE FOR FY2018**

COMMITTEE MEMBERS	POSITION	MEETINGS HELD IN THE DIRECTOR'S TENURE	MEETINGS ATTENDED
Dr. Bruce L A Carter	Chairman	4	4
Mr. Anupam Puri	Member	4	3 <sup>(1)(2)</sup>
Dr. Ashok S Ganguly*	Member	2	1 <sup>(1)</sup>
Ms. Kalpana Morparia**	Member	2	2
Mr. Hans Peter Hasler	Member	4	3 <sup>(1)</sup>
Mr. Prasad R Menon**	Member	2	1 <sup>(1)</sup>

\* Term ended on 28 July 2017 as an independent director.

\*\* Appointed as a member of the committee with effect from 30 October 2017.

<sup>(1)</sup> Was given leave of absence on request.

<sup>(2)</sup> Attended one meeting through tele-conference.

**TABLE 8 RISK MANAGEMENT COMMITTEE MEMBERSHIP AND ATTENDANCE IN FY2018**

COMMITTEE MEMBERS	POSITION	MEETINGS HELD IN THE DIRECTOR'S TENURE	MEETINGS ATTENDED
Dr. Omkar Goswami	Chairman	3	3
Dr. Bruce L A Carter	Member	3	3
Mr. Sridar Iyengar	Member	3	3
Mr. Hans Peter Hasler	Member	3	2 <sup>(1)</sup>

<sup>(1)</sup> Was given leave of absence on request.

the year: on 12 May 2017, 27 July 2017, 31 October 2017, 25 January 2018 and 7 March 2018. The company secretary officiates as the secretary of the committee.

## OTHER BOARD MATTERS

### CAPITAL EXPENDITURES (CAPEX)

The board approves the annual capex budget in line with the company's long-term strategy. An internal management committee approves all capex investments within the annual capex budget approved by the board. An update on key capex approvals (and their relevant details) granted by the internal management committee is generally provided to the board periodically.

### COMPLIANCE REVIEWS

Dr. Reddy's has a full-fledged team and an identified chief compliance officer to oversee compliance activities. The company's compliance status is periodically updated to the senior management team including the CEO, COO and CFO, and presentations are given in the quarterly audit committee and risk management committee meetings. When pertinent, these are also shared with all board members.

### COBE AND VIGIL MECHANISM

Dr. Reddy's has adopted a code of business conduct and ethics (the 'code'), which applies to all directors and employees, subsidiaries and affiliates. It is the responsibility of all

directors and employees to familiarize themselves with this code and comply with its standards. The board and the senior management across the globe annually affirm compliance with the code. A declaration of the co-chairman, managing director and CEO of the company to this effect is enclosed as **Exhibit 7** to this chapter.

The company has an ombudsperson policy (whistle-blower or vigil mechanism) to report concerns on actual or suspected violations of the code. The audit committee chairperson is the chief ombudsperson. Complaints and reports submitted to the company and their resolution are reported through the chief ombudsperson to the audit committee and, where applicable, to the board. During FY2018, no personnel has been denied access to the audit committee on ombudsperson issues. The code of business conduct and ethics and ombudsperson policy (whistle-blower policy) are available on the company's website. See: [www.drreddys.com/investors/governance/code-of-business-conduct-and-ethics-cobe](http://www.drreddys.com/investors/governance/code-of-business-conduct-and-ethics-cobe) and [www.drreddys.com/investors/governance/ombudsperson-policy](http://www.drreddys.com/investors/governance/ombudsperson-policy)

### RELATED PARTY TRANSACTIONS

The company has adequate procedures to identify and monitor related party transactions. All transactions entered into with related parties during the financial year were in the ordinary course of business and on arm's length pricing basis. All related party transactions are placed before the audit

committee and the board for review and approval, as appropriate. The details of related party transactions are discussed in detail in note 2.21 to the standalone financial statements. The company's policy on materiality of the related party transactions is available on the company's website: [www.drreddys.com/investor/governance/policies-and-documents/policy-materiality-related-party-transactions.html](http://www.drreddys.com/investor/governance/policies-and-documents/policy-materiality-related-party-transactions.html)

The interested directors are not present for discussion and voting on such related party transactions. Furthermore, the transactions with directors/their relatives/entities outside Dr. Reddy's group in which they are interested, are reviewed by an independent chartered accountant.

### SUBSIDIARY COMPANIES

The audit committee reviews the financial statements of Dr. Reddy's subsidiaries. It also reviews the investments made by such subsidiaries, the statement of all significant transactions and arrangements entered into by subsidiaries, and the compliances of each materially significant subsidiary on a periodic basis. The minutes of board meetings of the subsidiary companies are placed before the board of Dr. Reddy's for review. The company's policy for determining material subsidiaries is available on the company's website: [www.drreddys.com/investor/governance/policies-and-documents/policy-determining-material-subsiaries.html](http://www.drreddys.com/investor/governance/policies-and-documents/policy-determining-material-subsiaries.html)

### DISCLOSURE ON ACCOUNTING TREATMENT

In the preparation of financial statements for FY2018, there is no treatment of any transaction which is different from that prescribed in the Indian Accounting Standards (Ind AS) notified by the Government of India under section 133 of the Companies Act, 2013 read with rule 7 of the Companies (Accounts) Rules, 2014 and the Companies (Indian Accounting Standards) Rules, 2015, as amended from time to time, the guidelines issued by SEBI and other accounting principles generally accepted in India.

**TABLE 9** STAKEHOLDERS' RELATIONSHIP COMMITTEE MEMBERSHIP AND ATTENDANCE IN FY2018

COMMITTEE MEMBERS	POSITION	MEETINGS HELD IN THE DIRECTOR'S TENURE	MEETINGS ATTENDED
Ms. Kalpana Morparia	Chairperson	4	4
Mr. Bharat N Doshi	Member	4	4
Mr. G V Prasad	Member	4	4
Mr. K Satish Reddy	Member	4	4

**TABLE 10** CORPORATE SOCIAL RESPONSIBILITY COMMITTEE MEMBERSHIP AND ATTENDANCE IN FY2018

COMMITTEE MEMBERS	POSITION	MEETINGS HELD IN THE DIRECTOR'S TENURE	MEETINGS ATTENDED
Mr. Bharat N Doshi	Chairman	4	4
Mr. K Satish Reddy	Member	4	4
Mr. G V Prasad	Member	4	4

## MANAGEMENT

The management of Dr. Reddy's develops and implements policies, procedures and practices that attempt to translate the company's core purpose and mission into reality. It also identifies, measures, monitors and minimizes risks in the business and ensures safe, sound and efficient operation. These are internally supervised and monitored through the company's management council (MC).

## MANAGEMENT COUNCIL (MC)

Dr. Reddy's MC consists of senior management from the business and corporate functions. Page nos. 20-21 of this annual report gives details of the members of the MC. Apart from monthly meetings, the MC meets once a quarter for two-days sessions. Background notes for the monthly and quarterly meetings are circulated in advance. Listed below are some of the key issues that were considered by the MC during the year under review:

- The company's long-term strategy, growth initiatives and priorities;
- 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

The chapter on *Management Discussion and Analysis* forms a part of this annual report.

## MANAGEMENT DISCLOSURES

Senior management of the company (at the level of senior director and above, as well as certain identified key employees) make annual disclosures to the board on all material financial and commercial transactions in which they may have personal interest, if any, and which may have a potential conflict with the interest of the company. Transactions with key managerial personnel are listed in the financial section 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 SEBI in India and the Securities and Exchange Commission (SEC) of the USA. Necessary procedures have been laid down for directors, officers and employees for trading in the securities of the company. These are periodically communicated to such employees who are considered as insiders of the company. Apart from this, regular insider trading awareness sessions are conducted for the benefit of employees. Trading window closure/blackouts/quiet periods, when the directors and employees are not permitted to trade in the securities of the company, are intimated in advance to all concerned. Violations of the policy, if any, are appropriately acted on and reported to SEBI.

## INTERNAL CONTROL SYSTEMS AND STATUTORY AUDITS

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 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. The board periodically reviews the findings and recommendations of the statutory and internal auditors and suggests corrective actions whenever necessary.

## INTERNAL CONTROLS

Dr. Reddy's maintains a system of internal controls designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations;
- Adequacy of safeguards for assets;
- Reliability of financial and non-financial reporting; 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, objective

assurance and advisory function, responsible for evaluating and improving the effectiveness of risk management, control and governance processes. The internal audit team helps to enhance and protect organizational value by providing risk-based objective assurance, advice, and insight. The internal audit team prepares annual audit plans based on risk assessment and conducts extensive reviews covering financial, operational and compliance controls. 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 team 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 in which the audit committee reviews internal audit findings. During the year, the audit committee chairman also met the chief internal auditor without the presence of management.

## CEO AND CFO CERTIFICATION

A certificate of the co-chairman, managing director and CEO as well as the CFO of the company on financial statements and applicable internal controls as stipulated under regulation 17(8) of the Listing Regulations is enclosed as **Exhibit 8** to this chapter.

## STATUTORY AND IFRS AUDITS

For FY2018, M/s. S R Batliboi & Associates LLP, chartered accountants, audited the financial statements prepared under the Ind AS. The company had appointed KPMG as independent auditors for issuing an opinion on the financial statements prepared under IFRS for FY2018.

The independent statutory and IFRS auditors render an opinion regarding the fair presentation in the financial statements of the company's financial condition and operating results. Their audits are conducted 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.

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 the audit committee meetings – both face-to-face and via conference calls. Remedial measures suggested by the auditors and the audit committee have been either implemented or taken up for implementation by management.

#### AUDITORS' FEES

During FY2018, the company paid ₹ 12 million to M/s. S R Batliboi & Associates LLP, chartered accountants, the statutory auditors as audit fees. It also paid ₹ 1 million as fees for non-audit services performed by them.

#### AGREEMENTS WITH MEDIA

The company has not entered into any agreement with any media company and/or its associates.

#### SHAREHOLDERS MEANS OF COMMUNICATION

##### 1. Quarterly and annual results:

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* and made available on company's website: [www.drreddys.com](http://www.drreddys.com).

The financial results were sent, if asked for, to the registered e-mail addresses of shareholders.

2. **News releases, presentations, etc.:** 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. An analysis of the various means of dissemination of

information during the year under review is produced in **Table 11**.

3. **Website:** The primary source of information regarding the company's operations is the corporate website: [www.drreddys.com](http://www.drreddys.com). All official news releases and presentations made to institutional investors and analysts are posted here. It contains a separate dedicated investors section where the information for shareholders is available. The webcast of the proceedings of the annual general meeting is generally also made available on the company's website.
4. **Annual report:** The company's annual report containing, *inter alia*, the boards' report, the corporate governance report, the business responsibility report, management's discussion and analysis (MD&A), audited standalone and consolidated financial statements, auditors' report and other important information is circulated to shareholders and others so entitled. The annual report is also available on the company's website in a user-friendly and downloadable form.
5. **Chairman's speech:** The speech given at the AGM is made available on the company's website: [www.drreddys.com](http://www.drreddys.com)
6. **Reminder to investors:** Reminders to collect unclaimed dividend on shares or debenture redemption/interest are sent to the relevant shareholders and debenture holders.
7. **Compliances with stock exchanges:** National Stock Exchange of India Ltd. (NSE) and BSE Ltd. (BSE) maintain separate online portals for electronic submission of information by listed companies. Various communications such as notices, press releases and the regular quarterly, half-yearly and annual compliances and disclosures

are filed electronically on these portals. In addition, such disclosures and communications are also sent to the NYSE and filed with SEC.

8. **Designated exclusive e-mail ID:** Dr. Reddy's has designated an e-mail ID exclusively for investor services: [shares@drreddys.com](mailto:shares@drreddys.com).
9. **Register to receive electronic communications:** Dr. Reddy's has provided an option to the shareholders to register their e-mail ID online through the company's website to receive electronic communications. Shareholders who wish to receive electronic communications may register at [www.drreddys.com/investors/investor-services/shareholder-information.aspx](http://www.drreddys.com/investors/investor-services/shareholder-information.aspx)
10. **Disclosures:** The company has a policy on the determination of materiality for disclosure of certain events.

#### ADDITIONAL INFORMATION ON DIRECTORS SEEKING REAPPOINTMENT AND APPOINTMENT AT THE ENSUING ANNUAL GENERAL MEETING

##### MR. K SATISH REDDY

Mr. K Satish Reddy (aged 51 years) (DIN: 00129701) graduated in Chemical Engineering from Osmania University, India, in 1988 and went on to receive an M.S. in Medical Chemistry from Purdue University, USA, in 1990. He joined Dr. Reddy's in 1993 as an executive director responsible for manufacturing and new product development. In 1997, he was appointed as managing director. In the mid-1990s, as the company prepared for its global foray, he anchored the establishment of key systems and initiatives that positioned Dr. Reddy's for rapid expansion and helped to build its brand and corporate identity.

Mr. Reddy played an instrumental role in the company's transition from a bulk drugs manufacturer to a global player in the branded space by spearheading Dr. Reddy's entry into international Emerging Markets, especially Russia.

Mr. Reddy was reappointed as whole-time director designated as managing

**TABLE 11** DETAILS OF COMMUNICATION MADE DURING FY2018

MEANS OF COMMUNICATION	FREQUENCY
Press releases/statements	52
Earnings calls	4
Publication of results	4

director and chief operating officer for a period of five years commencing on 1 October 2012. After the demise of the company's founder, Dr. K Anji Reddy, he was re-designated as vice-chairman and managing director with effect from 30 March 2013 and has been subsequently re-designated as the chairman of the company with effect from 13 May 2014.

The board of directors and shareholders of Dr. Reddy's, at their meetings on 12 May 2017 and 28 July 2017 respectively, approved the reappointment of Mr. K Satish Reddy as a whole-time director designated as chairman of the company for a further period of five years, commencing from 1 October 2017 to 30 September 2022. He retires by rotation at the 34th AGM of the company and, being eligible, offers himself for the reappointment.

Mr. Reddy is also a director on the boards of: Greenpark Hotels and Resorts Limited, Stamlo Industries Limited, Dr. Reddy's Holdings Limited, Araku Originals Private Limited, Cipro Estates Private Limited, KAR Therapeutics & Estates Private Limited, Quin Estates Private Limited, Satish Reddy Estates Private Limited, Molecular Connections Private Limited, Dr. Reddy's Trust Services Private Limited, Dr. Reddy's Research Foundation, Dr. Reddy's Institute of Life Sciences, Ruthenika Technologies Limited and company's wholly-owned subsidiaries, Aurigene Discovery Technologies Limited, Dr. Reddy's Bio-Sciences Limited and Idea2Enterprises (India) Private Limited.

Apart from the committee chairmanship or membership of Dr. Reddy's, he is not a committee chairman or a member of any other public limited company.

He holds 1,019,332 equity shares in the company.

Except Mr. G V Prasad and Mr. K Satish Reddy and their relatives, none of the other directors or key managerial personnel of the company and their relatives are concerned or interested, financially or otherwise, in the proposal of Mr. Reddy's reappointment (retiring by rotation) at the ensuing annual general meeting.

#### MR. ANUPAM PURI

Mr. Anupam Puri (aged 73 years) (DIN: 00209113) was appointed as a director on the board of the company in June 2002. In terms of section 149 and other applicable provisions of the Companies Act, 2013, Mr. Puri was appointed as an independent director for a term of four years at the 30th annual general meeting of the company held on 31 July 2014.

From 1970 to 2000, Mr. Puri was associated with McKinsey & Company, a leading management consultancy firm. He worked globally with corporate clients across several industries on strategy and organizational issues, and also served several government 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. Puri holds a M.Phil. in Economics from Nuffield College, Oxford University, UK, an M.A. in Economics from Balliol College, Oxford University, and a B.A. in Economics from Delhi University, India.

Mr. Puri is also a director on the boards of: Mahindra & Mahindra Limited, Tech Mahindra Limited and company's wholly-owned subsidiary Dr. Reddy's Laboratories, Inc., USA.

Apart from the committee memberships in Dr. Reddy's, he is also a member of the audit committee and compensation committee of Tech Mahindra Limited and the strategic investment committee of Mahindra & Mahindra Limited.

Mr. Puri holds 13,500 ADRs having 13,500 underlying equity shares in the company as on 31 March 2018.

Except Mr. Puri and his relatives, none of the other directors or key managerial personnel of the company and their relatives are concerned or interested, financially or otherwise, in the proposal of Mr. Puri's reappointment at the ensuing annual general meeting.

#### MR. PRASAD R MENON

Mr. Prasad R Menon (aged 72 years) (DIN: 00005078) is a chemical engineer from the Indian Institute of Technology (IIT), Kharagpur. Mr. Menon has over 40 years of diverse experience in some of the premier multinational and Indian companies in the chemical and power industry.

After 20 years with chemical giant ICI India Limited (now Akzo Nobel India Limited), he went on to become director (technical) of Nagarjuna Fertilisers and Chemicals Limited. In 2000, he took over as managing director of Tata Chemicals Limited, and in 2006, he stepped outside the chemicals field to become managing director of Tata Power Company Limited, from where he eventually retired in January 2011.

He is also a director on the boards of Axis Bank Limited, SKF India Limited and the Tata Foundation.

Apart from the committee memberships in Dr. Reddy's, Mr. Menon is also a member of the nomination and remuneration committee, committee of directors, IT strategy committee and the acquisitions and mergers committee of Axis Bank Limited, and the audit committee and nomination and remuneration committee of SKF India Limited.

He doesn't hold any equity shares in the company.

Except Mr. Menon and his relatives, none of the other directors or key managerial personnel of the company and their relatives are concerned or interested, financially or otherwise, in the proposal of Mr. Menon's appointment at the ensuing annual general meeting.

#### COMPLIANCE REPORT ON THE 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 the SEC, must make its US investors aware of significant ways in which its corporate governance practices differ from those required of domestic companies under NYSE listing standards. A detailed analysis of this is available on the company's website: [www.drreddys.com](http://www.drreddys.com)

## COMPLIANCE REPORT ON DISCRETIONARY REQUIREMENTS UNDER REGULATION 27(1) OF THE LISTING REGULATIONS

1. **The board:** The chairman of Dr. Reddy's is an executive director and maintains the chairman's office at the company's expenses for the performance of his duties.
2. **Shareholders' rights:** The company did not send half-yearly results to the household of each shareholder(s) in FY2018. However, in addition to displaying its quarterly and half-yearly results on its website: www.drreddys.com and publishing in widely circulated newspapers, the quarterly financial results were sent, if asked for, to the registered e-mail addresses of shareholders.
3. **Audit qualifications:** The auditors have not qualified the financial statements of the company.
4. **Separate post of chairman and CEO:** Dr. Reddy's has separate posts of chairman and the CEO. Mr. K Satish Reddy is the chairman of the company; and Mr. G V Prasad is the co-chairman, managing director and CEO.
5. **Reporting of internal audit:** The chief internal auditor regularly updates the audit committee on internal audit findings at the committee's meetings and conference calls.

## ADDITIONAL SHAREHOLDERS' INFORMATION

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

## ANNEXURE A REMUNERATION POLICY

### I. CONTEXT

The purpose of this policy is to set over principles, parameters and governance framework of the remuneration for directors, KMPs, senior management personnel and employees. This policy will assist the board to fulfil its responsibility towards attracting, retaining and motivating the directors, KMPs, senior management personnel and employees

through competitive and reasonable remuneration in line with the corporate and individual performance. This document outlines following policies/ guidelines:

- A. Performance evaluation of directors
- B. Remuneration principles
- C. Board diversity

### II. DEFINITIONS

**"Board"** means board of directors of the company.

**"Committee"** means nomination, governance and compensation committee of the company as constituted or reconstituted by the board, from time to time.

**"Company"** means Dr. Reddy's Laboratories Limited.

**"Director"** means directors of the company.

**"Employee"** means any person, including officers who are in the permanent employment of the company.

**"Independent Director"** As provided under clause 49 of the Listing Agreement and/or under the Companies Act, 2013, 'independent director' shall mean a non-executive director, other than a nominee director of the company:

- a) who, in the opinion of the board, is a person of integrity and possesses relevant expertise and experience;
- b) (i) who is or was not a promoter of the company or its holding, subsidiary or associate company; (ii) who is not related to promoters or directors in the company, its holding, subsidiary or associate company;
- c) apart from receiving director's remuneration, has or had no pecuniary relationship with the company, its holding, subsidiary or associate company, or their promoters, or directors, during the two immediately preceding financial years or during the current financial year;
- d) none of whose relatives has or had pecuniary relationship or transaction with the company, its holding, subsidiary or associate company, or their promoters, or directors, amounting to two per cent or more of its gross turnover or total income or fifty lakh rupees or such higher amount as may be prescribed, whichever is lower, during the two immediately preceding financial years or during the current financial year;
- e) who, neither himself nor any of his relatives –
  - (i) holds or has held the position of a key managerial personnel or is or has been employee of the company or its holding, subsidiary or associate company in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed;
  - (ii) is or has been an employee or proprietor or a partner, in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed, of a firm of auditors or company secretaries in practice or cost auditors of the company or its holding, subsidiary or associate company; or any legal or a consulting firm that has or had any transaction with the company, its holding, subsidiary or associate company amounting to ten per cent or more of the gross turnover of such firm;
  - (iii) holds together with his relatives two per cent or more of the total voting power of the company; or
  - (iv) is a chief executive or director, by whatever name called, of any non-profit organization that receives twenty five per cent or more of its receipts from the company, any of its promoters, directors or its holding, subsidiary or associate company or that holds two per cent or more of the total voting power of the company; and
  - (v) is a material supplier, service provider or customer or a lessor or lessee of the company.
- f) who is not less than 21 years of age.

**"Key Managerial Personnel"** is as defined under the Companies Act, 2013 and means-

- a) the chief executive officer or the managing director or the manager (having ultimate controls over affairs of the company);
- b) the company secretary;
- c) the whole-time director;
- d) the chief financial officer; and
- e) such other officer as may be prescribed under the applicable statutory provisions/regulations from time to time.

“Senior Management” means personnel of the company who are members of its core management team excluding board of directors comprising all members of management one level below the executive directors, including the functional heads.

Unless the context otherwise requires, words and expressions used in this policy and not defined herein but defined in the Companies Act, 2013 as may be amended from time to time shall have the meaning respectively assigned to them therein.

**III. APPLICABILITY**

This policy is applicable to the following:

- Directors (executive and non-executive);
- Key managerial personnel (KMPs);
- Senior management personnel; and
- Other employees.

**IV. EVALUATION OF DIRECTORS**

For the purpose of determining remuneration (based on profitability of the company), the evaluation criteria of the executive and non-executive directors are as outlined below:

- 1) **Executive directors:**
  - a) Financial metrics covering growth in return on capital employed (RoCE) and profitability;
  - b) Non-financial metrics covering aspects such as health, brand building, compliance, quality and sustainability of operations of the organization, as may be agreed upon from time to time with the company.
- 2) **Non-executive directors:**
  - a) Level of engagement, independence of judgment, etc., and their contribution in enhancing the board’s overall effectiveness;

- b) The non-executive directors remuneration shall be globally benchmarked with similar organizations;
- c) Participation in the committees (either as chairperson or member) and the board meetings.

**V. REMUNERATION OF DIRECTORS, KMPs, SENIOR MANAGEMENT PERSONNEL AND OTHER EMPLOYEES**

The committee shall recommend to the board for their approval, any remuneration to be paid to the executive directors. The committee will separately review and approve the remuneration to be paid to KMPs and senior management personnel.

The level and composition of remuneration so determined by the Committee shall be reasonable and sufficient required to attract, retain and motivate directors, KMPs and senior management in order to run the company successfully. There shall be a clear linkage of remuneration to performance and health targets. The remuneration shall be a mix of fixed and variable pay/long-term pay reflecting short and long-term performance objectives appropriate to the working of the company and its strategic goals.

The key principles for each of the positions are outlined below:

- 1) **Executive directors** - The executive directors shall be paid remuneration by way of monthly compensation and profit based commission. The total remuneration to be paid to the executive directors shall be within the limits prescribed under the provisions of the Companies Act, 2013 and rules made thereunder;
- 2) **Non-executive directors** - The non-executive directors shall receive remuneration by way of sitting fees and reimbursement of expenses for attending meetings of board or committee thereof. In addition, the non-executive and independent directors shall also be eligible to receive profit related commission, as may be approved by the shareholders of the company. They shall not be entitled to any stock options;

The chairman of the company shall propose remuneration to be paid to non-executive directors.

The proposal for the remuneration shall be benchmarked with global pharmaceutical companies and the contribution made and time dedicated by each director;

- 3) **KMPs and senior management personnel** - Dr. Reddy’s recognizes that those chosen to lead the organization are vital to its ongoing success and growth. Thus, these executives should be offered competitive and reasonable compensation so that Dr. Reddy’s can attract, retain and encourage critical talent to meet important organizational goals and strategies. The compensation will be the mix of fixed pay, variable pay, performance based incentive plans or stock options. The executive total compensation program will be flexible to differentiate pay to recognize an individual incumbents’ critical skills, contributions, and future potential to impact the organization’s success; and
- 4) **Other employees** - The compensation program for employees is designed to help drive performance culture and align employees for the creation of sustainable value through behaviors like execution excellence, innovation and leadership. In line with the organization principles of managing the long-term and meritocracy, there are four principles of pay which have been enumerated - ability to pay, position-linked pay, person-specific pay and performance-linked pay. The company may periodically review the compensation and benefits at all levels to ensure that the company remains competitive and is able to attract and retain desirable talent. The committee may review the overall compensation approach for employees and on any changes done for the entire organization.

**VI. BOARD DIVERSITY**

Building a diverse and inclusive workplace is an integral part of Dr. Reddy’s culture. These principles are also applied to the composition of our board.

The board of directors shall have the optimum combination of directors from different areas/fields of expertise and experience like operations, management, quality assurance, finance, sales and marketing, supply chain, research and

development, human resources etc., or as may be considered appropriate. The board shall have at least one member who has accounting or related financial management expertise and at least three members who are financially literate.

At least one member of the board should be a woman.

## VII. CONFIDENTIALITY

The members of the committee may not disclose, in particular, the information contained in the confidential reports they receive or the contents of confidential discussions. They shall also ensure that any employees appointed to support them likewise comply with this rule.

## VIII. REVIEW

This policy will be reviewed at appropriate time, as decided by the committee. The utility and interpretation of this policy will be at the sole discretion of the committee.

## EXHIBIT 1

### REPORT OF THE AUDIT COMMITTEE

*To the shareholders of Dr. Reddy's Laboratories Limited*

The audit committee of the board of directors consists of three directors. Each member is an independent director as defined under Indian laws, Listing Regulations 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 FY2018, the audit committee met six times. It discussed with the company's internal auditors, statutory auditors and independent 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. The audit committee provides

at each of its meetings an opportunity for internal and external auditors to meet privately with the members of the committee, without the presence of management.

In fulfilling its oversight responsibilities, the committee reviewed and discussed the company's quarterly unaudited and annual audited financial statements with the management. M/s. S R Batliboi & Associates LLP, chartered accountants, the company's statutory 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 (GAAP), as applicable.

Relying on the review and discussions with the management and the auditors, the audit committee believes that the company's financial statements are fairly presented in conformity with Indian accounting standards (Ind AS) and the IFRS as issued by the International Accounting Standards Board 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. In conducting such reviews, the committee found no material discrepancy or weakness in the company's internal control systems.

During the year, the committee also reviewed the following:

- a) Non-audit services being provided by the statutory and independent auditors and concluded that such services were not in conflict with their independence;
- b) Structure of the internal audit function and chief internal auditor's remuneration; and
- c) Related party transactions, as applicable.

The committee ensures that the company's code of business conduct and ethics has a mechanism such that no personnel intending to make a complaint 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 of Dr. Reddy's Laboratories Limited for the year ended 31 March 2018 prepared as per Ind AS be accepted by the board as a true and fair statement of the financial status of the company; and
2. That the financial statements prepared as per IFRS as issued by International Accounting Standards Board for the year ended 31 March 2018 be accepted by the board and be included in the company's annual report on Form 20-F, to be filed with the US Securities and Exchange Commission.

In addition, the committee has also recommended the following to the board:

- Continuation of M/s. S R Batliboi & Associates LLP, chartered accountants as statutory auditors under Ind AS, in line with the approval of the shareholders in the 32nd AGM; and
- Appointment of the secretarial auditor and cost auditor.

### Sridar Iyengar

Chairman, Audit Committee

Place : Hyderabad

Date : 21 May 2018

## EXHIBIT 2

### 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 consists of three independent directors as defined under Indian laws, Listing Regulations 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.



The committee's primary responsibilities are to:

- Assess the company's policies and processes in key areas of corporate governance and the impact of related significant regulatory and statutory changes, if any, with a view that the company is at the forefront of good corporate governance;
- Periodically examine the structure, composition and functioning of the board, and recommend changes, as necessary, to improve the board's effectiveness and evaluation, including formulation of criteria for such evaluation;
- Examine major aspects of the company's organizational design, and recommend changes as necessary;
- Formulate policies on the remuneration of directors, KMPs and other employees and on board diversity;
- Review and recommend compensation and variable pay for executive directors to the board;
- Establish, in consultation with the management, the compensation program for the company, and recommend it to the board for approval, and in that context:
  - Establish annual key result areas (KRAs) for the executive directors and oversee the status of their achievement;
  - Review, discuss and provide guidance to the management, on the KRAs for members of the MC, KMPs and their remuneration;
  - Review the company's ESOP schemes and oversee its administration.

As on 31 March 2018, the company had 427,852 outstanding stock options, which amounts to 0.26% of total equity capital. These options are held by 549 employees 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'. The stock options are exercisable at par value i.e. ₹ 5/-.

In addition to the normal fulfilment of its responsibilities as described above, this year the committee has given special emphasis to board renewal, including inducting new directors, identifying candidates for the board, and modifying committee composition. It has also

worked with management to review the organization design, plan for upgrading and retaining talent at all levels, review succession plans for key positions, and support revision of training programs and the performance enablement systems.

It also reviewed the company's system for hiring, developing and retaining talent. In addition to setting the board evaluation parameters, the committee also recommended to the board the induction of new directors, changes in committee structure and membership and other steps that would improve the board's effectiveness in overseeing the company.

#### **Anupam Puri**

Chairman, Nomination, Governance and Compensation Committee

Place : Hyderabad

Date : 21 May 2018

### **EXHIBIT 3 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 consists of five independent directors as defined under Indian laws, Listing Regulations 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.

The committee's 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 technology developments and innovations and anticipate emerging concepts and trends in therapeutic

research and development, to help the company to make well-informed choices in committing its resources;

- Assist the board and the management in the 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 four times during the financial year and apprised the board on key discussions and recommendations made at such meetings.

#### **Dr. Bruce L A Carter**

Chairman, Science, Technology and Operations Committee

Place : Hyderabad

Date : 21 May 2018

### **EXHIBIT 4 REPORT OF THE RISK MANAGEMENT COMMITTEE**

*To the shareholders of Dr. Reddy's Laboratories Limited*

The risk management committee of the board of directors consists of four directors. Each member is an independent director as defined under Indian laws, Listing Regulations 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.

The committee's primary responsibilities are to:

- Discuss with senior management the company's enterprise-level risks and provide oversight as may be needed;
- Ensure it is apprised of the most significant risks and emerging issues, along with actions that the management is taking and how it is ensuring effective enterprise risk management (ERM); and
- Review risk disclosure statements in any public documents or disclosures.

The committee met thrice during the financial year to review the status of

mitigation of key business and financial risks, risk management initiatives, evaluate residual risk thereof and recommend interventions from time to time. It also apprised the board on key discussions and recommendations made at such meetings and shared information on enterprise-wide risks.

**Dr. Omkar Goswami**

Chairman, Risk Management Committee

Place : Hyderabad

Date : 21 May 2018

**EXHIBIT 5  
REPORT OF THE STAKEHOLDERS'  
RELATIONSHIP COMMITTEE**

*To the shareholders of Dr. Reddy's  
Laboratories Limited*

The stakeholders' relationship committee of the board of directors consists of four directors. Out of them two members are independent directors as defined under Indian laws, Listing Regulations 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.

The committee believes that its primary responsibilities are to:

- Review investor complaints and their redressal;
- Review of queries received from investors;
- Review of work done by the share transfer agent including their service standards; and
- Review corporate actions related to security holders.

The committee met four times during the financial year. It also reviewed the functioning of the company's secretarial and investor relations functions. It apprised the board on key discussions and recommendations made at such committee meetings.

**Kalpana Morparia**

Chairperson, Stakeholders' Relationship Committee

Place : Hyderabad

Date : 21 May 2018

**EXHIBIT 6  
REPORT OF THE CORPORATE  
SOCIAL RESPONSIBILITY  
COMMITTEE**

*To the shareholders of Dr. Reddy's  
Laboratories Limited*

The corporate social responsibility (CSR) committee of the board of directors consists of three directors, including two executive directors. The chairman is an independent director as defined under Indian laws, Listing Regulations 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.

The committee believes that its primary responsibilities are to:

- Formulate, review and recommend to the board a CSR policy indicating the activities to be undertaken by the company as specified in schedule VII of the Companies Act, 2013;
- Recommend the amount of expenditure to be incurred on the initiatives as per the CSR policy;
- Provide guidance on various CSR initiatives undertaken by the company and to monitor their progress including their impact; and
- Monitor implementation and adherence to the CSR policy of the company from time to time.

During the financial year, the committee met four times. It also reviewed and apprised the board on the CSR budget, key discussions and recommendations made at such meetings and shared information on the overall CSR initiatives undertaken by the company.

**Bharat N Doshi**

Chairman, Corporate Social Responsibility Committee

Place : Hyderabad

Date : 21 May 2018

**EXHIBIT 7  
THE CEO'S DECLARATION 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 applies 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 2017-18.

**G V Prasad**

Co-Chairman, Managing Director and CEO

Place : Hyderabad

Date : 21 May 2018

**EXHIBIT 8  
CEO AND CFO CERTIFICATE TO THE  
BOARD PURSUANT TO REGULATION  
17(8) OF THE LISTING REGULATIONS**

We, G V Prasad, co-chairman, managing director and chief executive officer, and Saumen Chakraborty, president and chief financial officer, to the best of our knowledge and belief, hereby certify that:

- A. We have reviewed the financial statements including the cash flow statement (standalone and consolidated) for the financial year ended 31 March 2018 and that these statements:
  - i. do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading; and
  - 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 violate the company's code of business conduct and ethics.

- C. We accept the 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. That there were no deficiencies in the design or operations of internal controls that could adversely affect the company's ability to record, process, summarize and report financial data including any corrective actions;
  - 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 that the same have been disclosed in the notes to the financial statements; and
  - v. that there are no instances of significant fraud of which we 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**

Co-Chairman, Managing Director & CEO

**Saumen Chakraborty**

President and Chief Financial Officer

Place : Hyderabad

Date : 21 May 2018

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE CONDITIONS OF CORPORATE GOVERNANCE AS PER PROVISIONS OF CHAPTER IV OF SECURITIES AND EXCHANGE BOARD OF INDIA (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015**

The members of  
Dr. Reddy's Laboratories Limited  
8-2-337, Road No. 3, Banjara Hills  
Hyderabad - 500 034

1. The corporate governance report prepared by Dr. Reddy's Laboratories Limited (hereinafter the "company"), contains details as required by the provisions of chapter IV of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended ("the Listing Regulations") ('Applicable criteria') with respect to corporate governance for the year ended 31 March 2018. This report is required by the company for annual submission to the stock exchange and to be sent to the shareholders of the company.

**MANAGEMENT'S RESPONSIBILITY**

2. The preparation of the corporate governance report is the responsibility of the management of the company including the preparation and maintenance of all relevant supporting records and documents. This responsibility also includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the corporate governance report.
3. The management along with the board of directors are also responsible for ensuring that the company complies with the conditions of corporate governance as stipulated in the Listing Regulations, issued by the Securities and Exchange Board of India.

**AUDITOR'S RESPONSIBILITY**

4. Pursuant to the requirements of the Listing Regulations, our responsibility is to express a reasonable assurance

in the form of an opinion whether the company has complied with the specific requirements of the Listing Regulations referred to in paragraph 3 above.

5. We conducted our examination of the corporate governance report in accordance with the Guidance Note on Reports or Certificates for Special Purposes and the Guidance Note on Certification of Corporate Governance, both issued by the Institute of Chartered Accountants of India ("ICAI"). The Guidance Note on Reports or Certificates for Special Purposes requires that we comply with the ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of India.
6. We have complied with the relevant applicable requirements of the Standard on Quality Control (SQC) 1, Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.
7. The procedures selected depend on the auditor's judgement, including the assessment of the risks associated in compliance of the corporate governance report with the applicable criteria. Summary of key procedures performed include:
  - i. Reading and understanding of the information prepared by the company and included in its corporate governance report;
  - ii. Obtained and verified that the composition of the board of directors with respect to executive and non-executive directors has been met throughout the reporting period;
  - iii. Obtained and verified that the composition of committees of the board of directors has been met throughout the reporting period;
  - iv. Obtained and read the directors register as on 31 March 2018 and verified that atleast one women director was on the board during the year;
  - v. Obtained and read the minutes of the following committee

meetings held from 1 April 2017 to 31 March 2018:

- (a) Board of directors meeting;
  - (b) Audit committee;
  - (c) Annual general meeting;
  - (d) Nomination, governance and compensation committee;
  - (e) Science, technology and operations committee;
  - (f) Stakeholders' relationship committee;
  - (g) Corporate social responsibility committee;
  - (h) Independent directors meeting; and
  - (i) Risk management committee.
- vi. Obtained necessary representations and declarations from directors of the company including the independent directors; and
- vii. Performed necessary inquiries with the management and also obtained necessary specific representations from management.

The above-mentioned procedures include examining evidence supporting the particulars in the corporate governance report on a test basis. Further, our scope of work under this report did not involve us performing audit tests for the purposes of expressing an opinion on the fairness or accuracy of any of the financial information or the financial statements of the company taken as a whole.

#### **OPINION**

8. Based on the procedures performed by us as referred in paragraph 7 above, and according to the information and explanations given to us, we are of the opinion that the company has complied with the conditions of corporate governance as stipulated in the Listing Regulations, as applicable for the year ended 31 March 2018, referred to in paragraph 2 above.

#### **OTHER MATTERS AND RESTRICTION ON USE**

9. This report 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.
10. This report is addressed to and provided to the members of the company solely for the purpose of enabling it to comply with its obligations under the Listing Regulations with reference to compliance with the relevant regulations of corporate governance and should not be used by any other person or for any other purpose. Accordingly, we do not accept or assume any liability or any duty of care or for any other purpose or to any other party to whom it is shown or into whose hands it may come without our prior consent in writing. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

for **S R Batliboi & Associates LLP**  
Chartered Accountants  
ICAI Firm Registration Number:  
101049W/E300004

per **Kaustav Ghose**  
Partner  
Membership Number: 57828

Place : Hyderabad  
Date : 21 May 2018

# 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, Telangana, India  
Tel: +91-40-4900 2900  
Fax: +91-40-4900 2999  
Website: www.drreddys.com  
CIN: L85195TG1984PLC004507  
E-mail ID: shares@drreddys.com

## REPRESENTING OFFICERS

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

### COMPLIANCE OFFICER UNDER SECURITIES AND EXCHANGE BOARD OF INDIA (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015

Sandeep Poddar  
Company Secretary  
Tel: +91-40-4900 2222  
Fax: +91-40-4900 2999  
E-mail ID: spoddar@drreddys.com

### ADR INVESTORS/INSTITUTIONAL INVESTORS/FINANCIAL ANALYSTS

Saunak Savla  
Investor Relations  
Tel: +91-40-4900 2135  
Fax: +91-40-4900 2999  
E-mail ID: saunaks@drreddys.com

## MEDIA

Calvin Printer  
Corporate Communications  
Tel: +91-40-4900 2121  
Fax: +91-40-4900 2999  
E-mail ID: calvinprinter@drreddys.com

## INDIAN RETAIL INVESTORS

Sandeep Poddar  
Company Secretary  
Tel: +91-40-4900 2222  
Fax: +91-40-4900 2999  
E-mail ID: shares@drreddys.com

## ANNUAL GENERAL MEETING

Date Friday, 27 July 2018  
Time 9.30 am  
Venue The Ballroom  
Hotel Park Hyatt  
Road No. 2, Banjara Hills  
Hyderabad 500 034

Last date for receipt of proxy forms:  
Wednesday, 25 July 2018 before 9.30 am.

## DIVIDEND

The board of directors of the company has proposed a dividend of ₹ 20/- on equity share of ₹ 5/-. The dividend, if declared by the shareholders at the 34th annual general meeting scheduled to be held on 27 July 2018, will be paid on or after 1 August 2018.

## BOOK CLOSURE DATE

The dates of book closure are from Wednesday, 18 July 2018 to Friday, 20 July 2018 (both days inclusive) for the purpose of payment of dividend.

## E-VOTING DATES

The cut-off date for the purpose of determining the shareholders eligible for e-voting is Friday, 20 July 2018.

The e-voting commences on Monday, 23 July 2018 at 9.00 am IST and ends on Thursday, 26 July 2018 at 5.00 pm IST.

## INTERNATIONAL SECURITIES IDENTIFICATION NUMBER (ISIN)

ISIN is a unique identification number of traded scrip. This number has to be quoted in each transaction relating to the dematerialized securities of the company. The ISIN number of the equity shares of Dr. Reddy's is INE089A01023.

## 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. Our ADRs carry the CUSIP no. **256135203**.

## DESCRIPTION OF VOTING RIGHTS

All equity shares issued by the company carry equal voting rights.

## DEPOSITORIES OVERSEAS DEPOSITORY OF ADRs

J.P. Morgan Chase & Co.  
P.O. Box 64504, St. Paul  
MN 55164-0504, USA  
Tel: +1-651-453 2128

## INDIAN CUSTODIAN OF ADRs

J.P. Morgan Chase Bank NA  
India Sub-Custody, 6th Floor  
Paradigm B Wing, Mindspace, Malad (West)  
Mumbai 400 064, Maharashtra, India  
Tel: +91-22-6649 2617  
Fax: +91-22-6649 2509  
E-mail ID: india.custody.client.service@jpmorgan.com

## FINANCIAL CALENDAR

### TENTATIVE CALENDAR FOR DECLARATION OF FINANCIAL RESULTS IN FY2019

For the quarter ending 30 June 2018	Last week of July 2018
For the quarter and half-year ending 30 September 2018	Fourth week of October 2018
For the quarter and nine months ending 31 December 2018	First week of February 2019
For the year ending 31 March 2019	Third week of May 2019
AGM for the year ending 31 March 2019	Last week of July 2019

*FY2018 represents fiscal year 2017-18, from 1 April 2017 to 31 March 2018, and analogously for FY2017 and other such labeled years.*

### REGISTRAR AND TRANSFER AGENT (RTA) FOR INDIAN SHARES (COMMON AGENCY FOR DEMAT AND PHYSICAL SHARES)

Bigshare Services Private Limited  
306, Right Wing, 3rd Floor, Amrutha Ville  
Opp. Yashoda Hospital, Rajbhavan Road  
Hyderabad 500 082, Telangana, India  
Tel: +91-40-2337 4967  
Fax: +91-40-2337 0295  
E-mail ID: bsshyd@bigshareonline.com

### PERSONS HOLDING OVER 1% OF THE SHARES

**Table 1** gives the names of the persons who hold more than 1% of equity shares of the company as on 31 March 2018.

### EQUITY HISTORY OF THE COMPANY

**Table 2** lists equity history of the company since incorporation of the company up to 31 March 2018.

### STOCK DATA

**Table 3** gives the monthly high/low and the total number of shares/ADRs traded per month on the BSE, NSE and the NYSE during FY2018.

**Chart 1** gives the movement of the company's share price on NSE vis-à-vis NIFTY 50 Index during FY2018.

**Chart 2** gives the movement of the company's ADR price on NYSE vis-à-vis S&P ADR Index during FY2018.

**Chart 3** gives premium in percent on company's ADR traded on NYSE compared to the share price quoted at NSE during FY2018.

### SHAREHOLDING PATTERN AS ON 31 MARCH 2018

**Tables 4 and 5** gives the data on shareholding classified on the basis of category and distribution of ownership, respectively.

### DIVIDEND HISTORY

**Chart 4** on page 71 shows the dividend history of the company from the FY2008 to FY2018.

### NOMINATION FACILITY

Shareholders holding physical shares may, if they so desire, send their nominations in form SH-13 of the Companies (Share Capital and

Debentures) Rules, 2015, as amended, to the RTA of the company. Further, they may cancel/vary their nomination already made, in form SH-14 by sending it to the RTA. Those holding shares in dematerialized form may contact their respective depository participant (DP) to avail the nomination facility.

### EXCHANGE OF SHARE CERTIFICATES

Standard Equity Fund Limited (SEFL), Cheminor Drugs Limited (CDL), American Remedies Limited (ARL) merged with Dr. Reddy's Laboratories Limited in the years 1995, 2000 and 2001 respectively. Also, during the year 2001, the company sub-divided the face value of its equity shares of ₹ 10/- into ₹ 5/-. Hence, the share certificates of the above three companies and old share certificates of ₹ 10/- face value are no longer valid.

The shareholders holding the share certificates of the above three companies or of ₹ 10/- face value, are requested to submit those share certificates either to the company or to the RTA, Bigshare Services Private Limited. On receipt of these share certificate(s), the new share certificate(s) will be mailed to the shareholders.

### LISTING ON STOCK EXCHANGES AND STOCK CODES

DETAILS OF STOCK EXCHANGE	STOCK CODE	
	EQUITY SHARES	ADRs
BSE Limited (BSE), P J Towers, Dalal Street, Fort, Mumbai 400 001, India	500124	-
National Stock Exchange of India Ltd. (NSE), Exchange Plaza, Bandra-Kurla Complex, Bandra (E), Mumbai 400 051, India	DRREDDY-EQ	-
New York Stock Exchange Inc. (NYSE), 11, Wall Street, New York, 10005, USA	-	RDY

#### Notes:

1. Listing fees to the Indian stock exchanges for listing of equity shares have been paid for the FY2019.
2. Listing fees to the NYSE for listing of ADRs has been paid for the CY2018.
3. The stock code on Reuters is REDY:NS and on Bloomberg is DRRD:IN.

**TABLE 1 PERSONS HOLDING 1% OR MORE OF THE EQUITY SHARES IN THE COMPANY AS ON 31 MARCH 2018<sup>(1)</sup>**

SL. NO.	NAME	NO. OF SHARES	%
1	Dr. Reddy's Holdings Limited	41,083,500	24.76
2	First State Investments Management (UK) Limited, First State Investments International Limited and their associates	10,726,942	6.47
3	Life Insurance Corporation of India and its associates	7,361,709	4.44
4	Oppenheimer Developing Markets Fund	5,286,227	3.19
5	Franklin Templeton Investment Funds	4,831,949	2.91
6	Blackrock Institutional Trust Company and its associates	4,663,532	2.81
7	Reliance Capital Trustee Company Limited and its associates	3,458,240	2.08
8	Franklin Templeton Mutual Fund and its associates	3,039,386	1.83
9	Aditya Birla Sun Life Trustee Private Limited and its associates	2,901,340	1.75
10	Teluk Kemang Investments (Mauritius) Limited	2,015,592	1.21

<sup>(1)</sup> Does not include ADR holding.

**TABLE 2 EQUITY HISTORY OF THE COMPANY SINCE INCORPORATION OF THE COMPANY UP TO 31 MARCH 2018**

DATE/ FINANCIAL YEAR	PARTICULARS	ISSUED	CANCELLED/ EXTINGUISHED	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
09-Aug-86	Issue to public	1,116,250		1,366,250
30-Sep-88	Forfeiture of 100 shares		100	1,366,150
09-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	Standard Equity Fund Limited shareholders on merger	263,062		26,487,238
30-Jan-01	Cheminor Drugs Limited shareholders on merger	5,142,942		31,630,180
30-Jan-01	Cancellation of shares held in Cheminor Drugs Ltd.		41,400	31,588,780
11-Apr-01	ADR underlying equity shares	6,612,500		38,201,280
09-Jul-01	GDR conversion into ADR			38,201,280
24-Sep-01	American Remedies Limited shareholders on merger	56,694		38,257,974
25-Oct-01	Sub-division of one equity share of ₹ 10/- into two equity shares of ₹ 5/-			76,515,948
2004-05	Allotment pursuant to exercise of stock options	3,001		76,518,949
2005-06	Allotment pursuant to exercise of stock options	175,621		76,694,570
2006-07	Allotment pursuant to exercise of stock options	63,232		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
2006-07	Allotment pursuant to exercise of stock options	96,576		167,912,180
2007-08	Allotment pursuant to exercise of stock options	260,566		168,172,746
2008-09	Allotment pursuant to exercise of stock options	296,031		168,468,777
2009-10	Allotment pursuant to exercise of stock options	376,608		168,845,385
2010-11	Allotment pursuant to exercise of stock options	407,347		169,252,732
2011-12	Allotment pursuant to exercise of stock options	307,614		169,560,346
2012-13	Allotment pursuant to exercise of stock options	276,129		169,836,475
2013-14	Allotment pursuant to exercise of stock options	272,393		170,108,868
2014-15	Allotment pursuant to exercise of stock options	272,306		170,381,174
2015-16	Allotment pursuant to exercise of stock options	226,479		170,607,653
2016-17	Buyback of equity shares		5,077,504	165,530,149
	Allotment pursuant to exercise of stock options	211,564		165,741,713
2017-18	Allotment pursuant to exercise of stock options	169,194		165,910,907

## SHARE TRANSFER SYSTEM

All queries and requests relating to share transfers/transmissions may be addressed to our RTA:

### BIGSHARE SERVICES PRIVATE LIMITED

306, Right Wing, 3rd Floor, Amrutha Ville,  
Opp. Yashoda Hospital, Rajbhavan Road,  
Hyderabad 500 082, Telangana, India  
Tel: +91-40-2337 4967  
Fax: +91-40-2337 0295  
E-mail ID: bsshyd@bigshareonline.com

To expedite the process of share transfers, the company secretary has been delegated with the power to attend to the share transfer formalities at regular intervals.

Pursuant to the provisions of section 46 of the Companies Act, 2013 read with rule 6(2)(a) of the Companies (Share Capital and Debentures) Rules, 2014, duplicate share certificates, in lieu of those that are lost or destroyed, should only be issued with the prior consent of the board. However, the Ministry of Corporate Affairs vide its general circular no. 19/2014, dated 12 June 2014, has clarified that the powers of the board with regard to the issue of duplicate share certificates can be exercised by a committee of directors. Therefore, the board of directors, at its meeting held on 12 May 2015, delegated the power to issue duplicate share certificates, to the stakeholders' relationship committee.

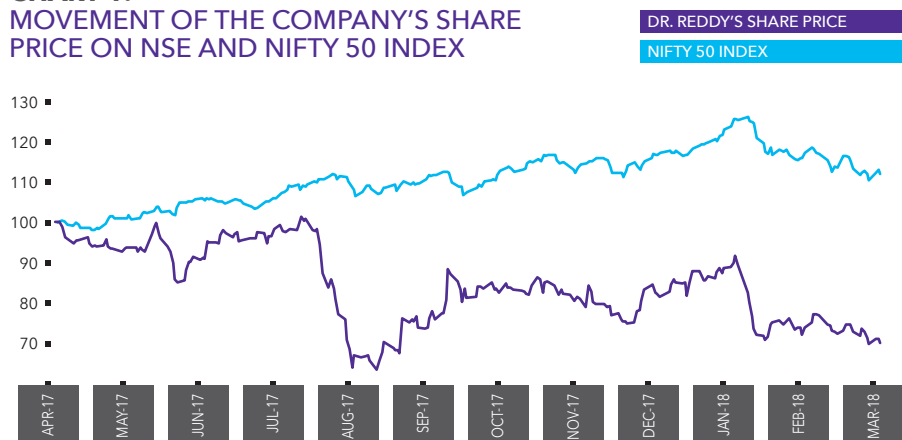
The stakeholders' relationship committee attends to such requests at regular intervals.

The company periodically reviews the operations of its RTA. The number of shares transferred/transmitted in physical form during the last two financial years are given in **Table 6**.

### DEMATERIALIZATION OF SHARES

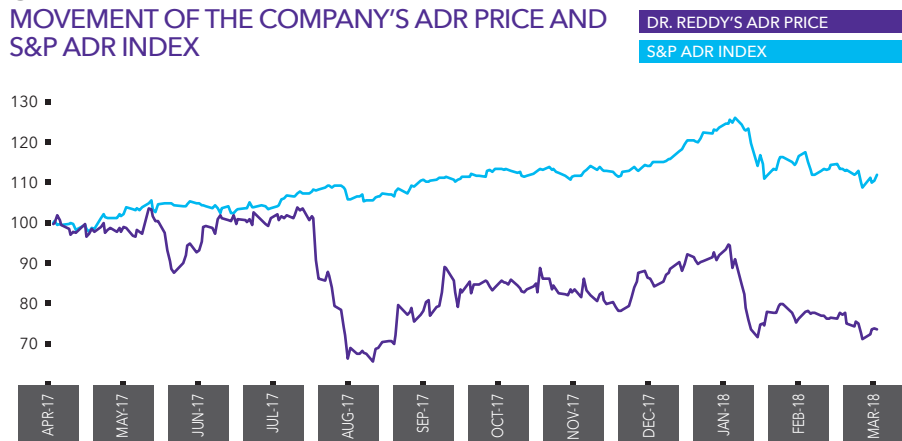
The company's scrip forms part of the compulsory dematerialization segment for all investors with effect from 15 February 1999. To facilitate easy access of the dematerialized system to the investors, Dr. Reddy's has signed up with both the depositories in India – the National

**CHART 1:**  
MOVEMENT OF THE COMPANY'S SHARE  
PRICE ON NSE AND NIFTY 50 INDEX



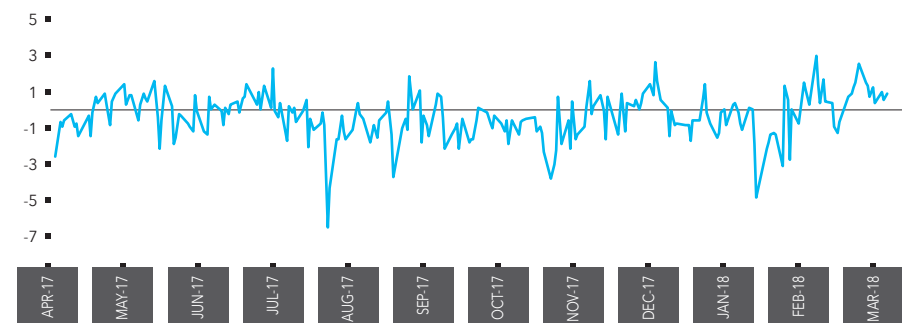
Notes: 1. All values are indexed to 100 as on 1 April 2017.  
2. NIFTY 50 is a diversified 50 stock index accounting for 12 sectors of the Indian economy. NIFTY 50 is owned and managed by India Index Services and Products Ltd. (IISL), India's specialized company focused upon the index as a core product.

**CHART 2:**  
MOVEMENT OF THE COMPANY'S ADR PRICE AND  
S&P ADR INDEX



Notes: 1. All values are indexed to 100 as on 1 April 2017.  
2. The S&P ADR Index is based on the non-US stocks comprising the S&P Global 1200 traded in the US exchanges. For details of the methodology used to compute this index, please visit [www.adr.com](http://www.adr.com)

**CHART 3:**  
PREMIUM IN PERCENT ON COMPANY'S ADR TRADED ON NYSE VERSUS  
SHARE PRICE QUOTED AT NSE



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

Securities Depository Ltd. (NSDL) and the Central Depository Services (India) Ltd. (CDSL) and has established connectivity with the depositories through its RTA, Bigshare Services Private Limited.

Chart 5 gives the breakup of dematerialized shares and shares in physical form as on 31 March 2018 compared with 31 March 2017. Dematerialization of shares is done through Bigshare Services Private Limited and the dematerialization process is generally 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 FY2018, a qualified practicing company secretary carried out the reconciliation of share capital audit to reconcile the total admitted share capital held with NSDL and CDSL and the total issued and listed share capital. The reports confirm that the total issued/paid-up share capital is in agreement with total number of shares in physical form and dematerialized form held with NSDL and CDSL.

In addition to the above and pursuant to section 204 of the Companies Act, 2013 and corresponding rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, a secretarial audit for FY2018 was carried out by Dr. K R Chandratre, a practicing company secretary having more than 31 years of experience (membership no. FCS 1370 and certificate of practice no. 5144). The secretarial audit report forms a part of this annual report. Further, the company complies with the applicable Secretarial Standards issued by the Institute of Company Secretaries of India.

### OUTSTANDING ADRs AND THEIR IMPACT ON EQUITY SHARES

The company's ADRs are traded in the US on New York Stock Exchange Inc. (NYSE) under the ticker symbol 'RDY'. Each ADR is represented by one equity share. As on 31 March 2018, there were approximately 60 registered holders and 16,053 beneficial shareholders of ADRs evidencing 22,076,602 ADRs.



**TABLE 3 HIGH, LOW AND NUMBER OF SHARES/ADRS TRADED PER MONTH ON BSE, NSE AND NYSE DURING FY2018**

MONTH	BSE			NSE			NYSE		
	HIGH (₹)	LOW (₹)	NO. OF SHARES	HIGH (₹)	LOW (₹)	NO. OF SHARES	HIGH (US\$)	LOW (US\$)	NO. OF ADRs <sup>(1)</sup>
Apr-17	2,771.40	2,585.55	683,267	2,770.00	2,583.55	5,487,978	42.40	39.93	3,983,229
May-17	2,757.00	2,382.05	843,117	2,760.00	2,380.35	9,076,182	42.72	37.03	6,486,161
Jun-17	2,720.00	2,512.15	643,314	2,720.95	2,513.90	6,591,042	42.15	38.75	5,559,638
Jul-17	2,788.00	2,378.00	877,665	2,787.00	2,375.00	9,049,377	42.97	35.89	6,123,540
Aug-17	2,455.50	1,901.65	1,949,623	2,458.00	1,901.15	18,439,793	37.47	29.83	9,730,931
Sep-17	2,528.60	2,069.10	1,920,700	2,526.75	2,066.15	26,716,906	38.27	33.12	7,795,403
Oct-17	2,504.70	2,317.80	1,120,332	2,504.00	2,315.00	11,219,907	37.40	35.30	6,158,204
Nov-17	2,498.00	2,260.00	1,271,786	2,494.00	2,260.15	12,959,781	37.65	34.76	6,626,796
Dec-17	2,446.00	2,175.00	850,312	2,448.40	2,171.00	9,801,048	37.79	33.89	5,831,708
Jan-18	2,611.80	2,205.00	1,195,083	2,615.00	2,203.55	14,386,224	39.96	34.13	7,503,021
Feb-18	2,265.95	1,990.70	1,079,690	2,266.95	2,005.55	13,650,120	34.96	32.04	6,018,349
Mar-18	2,248.00	2,053.20	550,771	2,239.90	2,050.30	8,554,659	34.42	31.92	5,267,169

<sup>(1)</sup> One ADR is equal to one equity share.

**TABLE 4 DISTRIBUTION OF SHAREHOLDING ON THE BASIS OF CATEGORY**

CATEGORY	AS ON 31 MARCH 2018		AS ON 31 MARCH 2017		% CHANGE
	NO. OF SHARES	% OF TOTAL	NO. OF SHARES	% OF TOTAL	
Promoters' holding <sup>(1)</sup>					
- Individuals	3,315,328	2.00	3,771,828	2.28	(0.28)
- Companies	41,083,500	24.76	40,627,000	24.51	0.25
<b>Sub-total</b>	<b>44,398,828</b>	<b>26.76</b>	<b>44,398,828</b>	<b>26.79</b>	<b>(0.03)</b>
Indian financial institutions	9,322,776	5.62	9,129,045	5.51	0.11
Banks	355,985	0.21	439,300	0.27	(0.06)
Mutual funds/UTI	14,767,937	8.90	7,928,164	4.78	4.12
Foreign holdings					
- Foreign institutional investors/foreign portfolio investors	50,189,829	30.25	53,694,200	32.40	(2.15)
- Non resident indians	1,819,954	1.10	1,898,565	1.14	(0.04)
- ADRs	22,076,602	13.31	27,171,944	16.39	(3.08)
- Foreign nationals	11,040	0.01	13,949	0.01	-
<b>Sub-total</b>	<b>98,544,123</b>	<b>59.40</b>	<b>100,275,167</b>	<b>60.50</b>	<b>(1.10)</b>
Indian public and corporates	22,967,956	13.84	21,067,718	12.71	1.13
<b>Total</b>	<b>165,910,907</b>	<b>100.00</b>	<b>165,741,713</b>	<b>100.00</b>	

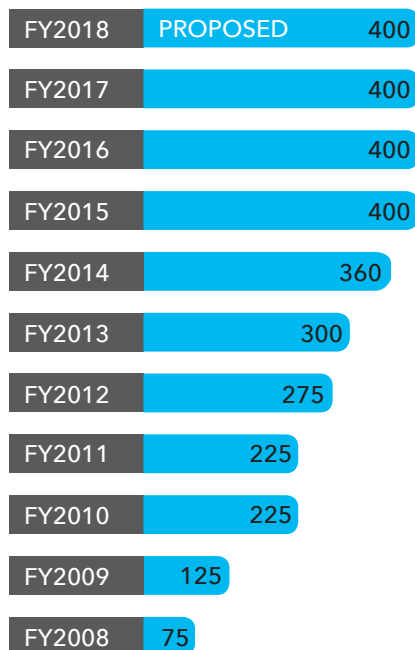
<sup>(1)</sup> Change in percentage due to inter se transfer within promoter group and ESOP allotment.

**TABLE 5 DISTRIBUTION OF EQUITY SHAREHOLDING ACCORDING TO OWNERSHIP AS ON 31 MARCH 2018**

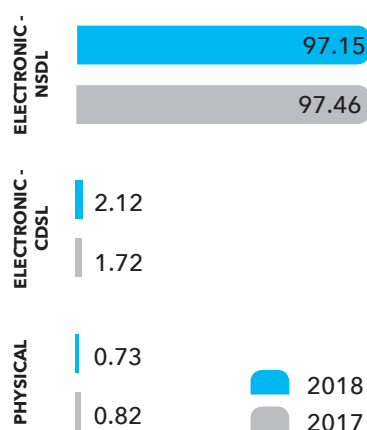
SHARES HELD	NO. OF SHAREHOLDERS	% OF SHAREHOLDERS	NO. OF SHARES HELD	% OF SHAREHOLDING
1 - 5,000	136,999	99.27	12,622,630	7.61
5,001 - 10,000	434	0.31	3,002,085	1.81
10,001 - 20,000	216	0.16	3,036,074	1.83
20,001 - 30,000	78	0.06	1,914,372	1.15
30,001 - 40,000	36	0.03	1,255,377	0.76
40,001 - 50,000	26	0.02	1,171,975	0.71
50,001 - 100,000	55	0.04	3,755,286	2.26
100,001 & above	156	0.11	117,076,506	70.56
<b>Total (excluding ADRs)</b>	<b>138,000</b>	<b>100.00</b>	<b>143,834,305</b>	<b>86.69</b>
Equity shares underlying ADRs <sup>(1)</sup>	1	0.00	22,076,602	13.31
<b>Total</b>	<b>138,001</b>	<b>100.00</b>	<b>165,910,907</b>	<b>100.00</b>

<sup>(1)</sup> Held by beneficial owners outside India.

**CHART 4:**  
DIVIDEND HISTORY FY2008-18(%)



**CHART 5:**  
BREAK UP OF SHARES IN  
ELECTRONIC AND PHYSICAL  
FORM AS ON 31 MARCH 2018  
AND 31 MARCH 2017 (%)



#### QUERIES AND REQUESTS RECEIVED FROM SHAREHOLDERS IN FY2018

Table 7 gives details of the nature of shareholder queries received and replied to during FY2018. Pending queries and requests were either received during the last week of March 2018, or were pending due to non-receipt of information/documents from the shareholders.

#### DATE AND VENUE OF LAST THREE ANNUAL GENERAL MEETINGS

Table 8 gives the details of date, time, location and business transacted through special resolution at last three annual general meetings.

#### POSTAL BALLOT DETAILS

The special resolutions relating to 'Dr. Reddy's Employees Stock Option Scheme, 2002' and 'Dr. Reddy's Employees ADR Stock Option Scheme, 2007' were proposed but not passed by the shareholders.

#### PERSON WHO CONDUCTED THE POSTAL BALLOT PROCESS

Mr. G Raghu Babu, company secretary in practice and partner of M/s. R & A Associates, company secretaries, Hyderabad (membership no. FCS 4448 and certificate of practice no. 2820) was appointed as the scrutinizer for carrying out the postal ballot process in a fair and transparent manner.

#### PROPOSAL TO CONDUCT POSTAL BALLOT FOR ANY MATTER IN THE ENSUING ANNUAL GENERAL MEETING

There is no proposal to conduct postal ballot for any matter in the ensuing annual general meeting.

#### PROCEDURE FOR POSTAL BALLOT

In compliance with the Listing Regulations and sections 108, 110 and other applicable provisions of the Companies Act, 2013, read with applicable rules, the company provides an electronic voting facility to all its shareholders, to enable them to cast their votes electronically. The company engages the services of NSDL for the purpose of providing e-voting facility to all its shareholders. The shareholders have the option to vote either by physical ballot or e-voting.

The company dispatches the postal ballot notices and forms along with self-addressed business reply envelope to its shareholders whose names appear on the register of members/list of beneficiaries as on a cut-off date. The postal ballot notice is sent to the shareholders in electronic form to the e-mail IDs registered with the DPs/RTA.

Voting rights are reckoned on the paid-up value of the shares registered in the names of the shareholders as on the cut-off date. Shareholders desiring to exercise their votes by physical postal ballot forms are requested to return the forms duly completed and signed, to the scrutinizer on or before the closing of the voting period. Shareholders desiring to exercise their votes by electronic mode are requested to vote before close of business hours on the last day of e-voting. The last date specified by the company for receipt of duly completed postal ballot forms or e-voting is deemed to be the date of passing of the resolution.

The scrutinizer submits his report to the chairman of the board of directors or any person authorized by him, after the completion of scrutiny, and the consolidated results of the voting by postal ballot are then announced. The results are also displayed on the company's website www.drreddys.com, besides being communicated to the stock exchanges, depository and RTA.

#### DISCLOSURE ON LEGAL PROCEEDINGS PERTAINING TO SHARES

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

#### UNCLAIMED DIVIDENDS/ INTEREST

Pursuant to section 125 of the Companies Act, 2013, unclaimed dividend amounts up to and including for the FY2010 have been transferred to the general revenue account of the Central Government/Investor Education and Protection Fund (IEPF).

The dividends and interest on debentures which are unclaimed for seven years (since FY2011) will be transferred to IEPF established by the Central Government under section 125 of the Companies Act, 2013. Table 9 gives the transfer dates in this regard.

Bonus debentures, issued by the company in the year 2011, matured on 24 March 2014. These were redeemed for cash at face value of ₹ 5/- each along with third and final year's interest.

**TABLE 6** SHARES TRANSFERRED/TRANSMITTED IN PHYSICAL FORM

	FY2018	FY2017
Number of transfers/transmissions*	58	111
Number of shares	18,857	46,058

\* Does not include 115,262 equity shares (1,254 folios) transferred to Investor Education and Protection Fund due to their dividend remaining unclaimed for FY2010-16.

**TABLE 7** SHAREHOLDER QUERIES AND REQUESTS RECEIVED AND REPLIED TO IN FY2018

SL. NO.	NATURE	OPENING BALANCE	RECEIVED	REPLIED	CLOSING BALANCE*
1	Change of address	-	68	68	-
2	Request for revalidation and issue of duplicate dividend warrants	13	233	245	1
3	Request for sub-division of shares (exchange)	7	79	86	-
4	Share transfers	1	62	63	-
5	Transmission of shares	3	35	38	-
6	Split/consolidation of shares	-	3	3	-
7	Stop transfer	-	27	27	-
8	Power of attorney registration	-	2	2	-
9	Change of bank mandate	-	35	35	-
10	Correction of name	-	14	14	-
11	Dematerialization of shares	1	375	376	-
12	Rematerialization of shares	-	5	5	-
13	Issue of duplicate share certificates of Dr. Reddy's	10	79	83	6
14	Requests received from shareholders	-	788	788	-
15	Complaints received through stock exchanges/SEBI etc.	-	12	12	-
16	Claim of unclaimed share certificates	-	59	59	-

\* The company has since attended all the shareholders' requests and queries which were pending as on 31 March 2018. The above table does not include shareholders' disputes, which are pending in various courts.

**TABLE 8** LAST THREE ANNUAL GENERAL MEETINGS

YEAR	DATE AND TIME	LOCATION	SPECIAL RESOLUTION(S) PASSED
2014-15	31 July 2015 at 9.30 am	Grand Ball Room, Hotel Taj Krishna, Road No. 1, Banjara Hills, Hyderabad 500 034	No special resolution passed
2015-16	27 July 2016 at 9.30 am	Kaveri Ball Room, Hotel Trident, HITEC City, Madhapur, Hyderabad 500 081	No special resolution passed
2016-17	28 July 2017 at 9.30 am	Kaveri Ball Room, Hotel Trident, HITEC City, Madhapur, Hyderabad 500 081	No special resolution passed

Shareholders/debenture holders who have not claimed the dividend(s)/interest/redemption amount are, therefore, requested to do so before they are statutorily transferred to the IEPF.

The shareholders/debenture holders who have not cashed their dividend/interest warrants nor claimed the redemption amount on matured debentures are requested to immediately approach Bigshare Services Private Limited, for issuing duplicate warrant(s)/demand draft(s) in lieu of the original warrants/demand drafts.

The information on unclaimed dividend/interest is available on the company's website [www.drreddys.com](http://www.drreddys.com)

#### **TRANSFER OF UNDERLYING SHARES TO INVESTOR EDUCATION AND PROTECTION FUND (IEPF)**

Pursuant to section 124(6) of the Companies Act, 2013 read with Investor Education and Protection Fund Authority (Accounting, Audit, Transfer and Refund) Rules, 2016, as amended, all shares in respect of which dividend has not been paid or claimed for seven consecutive years or more shall be transferred by the company in the name of IEPF.

During the year, company has transferred (transmitted) 115,262 equity shares held under 1,254 folios on which dividend has not been paid or claimed for seven consecutive years since FY2010 to the IEPF.

The company has sent individual notices to the latest available addresses of the shareholders, whose dividends are lying unpaid/unclaimed for FY2011 along with subsequent seven consecutive year's dividend, advising them to claim the dividends on or before 5 August 2018. It has also published a notice in newspapers inviting the shareholders' attention.

Shareholders who have not claimed their dividends since 2010-11 can write to the company's RTA: Bigshare Services Private Limited, 306, 3rd Floor, Right Wing, Amrutha Ville, Opp. Yashoda Hospital, Rajbhavan Road, Somajiguda, Hyderabad 500 082, India (e-mail ID: [bsshyd@bigshareonline.com](mailto:bsshyd@bigshareonline.com)) or at the registered office of the company on or before 5 August 2018 for making a valid claim for the unclaimed dividends. If the shareholders do not claim the unpaid or unclaimed dividends on or before 5 August 2018, the shares held by them are liable to be transferred to IEPF.

Any person, whose shares and unpaid/unclaimed dividends get transferred to the IEPF may claim the shares and unpaid/unclaimed dividends from the IEPF in accordance with such procedure and on submission of such documents as prescribed.

Details of equity shares liable to be transferred to IEPF are available on the company's website: [www.drreddys.com](http://www.drreddys.com)

### DEALING WITH SECURITIES WHICH HAVE REMAINED UNCLAIMED

Pursuant to regulation 39(4) of SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015 read with schedule VI of the said Regulations, the company has dematerialized shares which have been returned undelivered by postal authorities and shares lying unclaimed after sub-division. The dematerialized shares are held in an 'unclaimed suspense account' opened with a depository participant associated with NSDL.

Any corporate benefits accruing on such shares, viz. bonus shares, split etc., shall also be credited to unclaimed suspense account, for a period of seven years and thereafter shall be transferred by the company to IEPF, in accordance with provisions of section 124(5) and (6) of the Companies Act, 2013 and rules made thereunder.

**Table 10** gives the details of the unclaimed shares as on 31 March 2018 held by the company.

The voting rights on such unclaimed shares shall remain frozen till the rightful owner claims these shares.

### NON-COMPLIANCE ON MATTERS RELATING TO CAPITAL MARKETS

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

### FINANCIAL RESULTS ON THE COMPANY'S WEBSITE

The quarterly, half yearly and annual results of the company are displayed on its website: [www.drreddys.com](http://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. Besides, the company also regularly provides relevant information to the stock exchanges as per the requirements of the Listing Regulations.

### INFORMATION ON DIRECTOR PROPOSED FOR REAPPOINTMENT/ APPOINTMENT

The information is given in the chapter on *Corporate Governance* and *Notice* of 34th annual general meeting.

### 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 an investor-helpdesk at the annual general meeting. Shareholders may post their queries relating to shares, dividends etc., at the investor-helpdesk.

### PROCEDURE FOR CONVENING AN EXTRAORDINARY GENERAL MEETING

Pursuant to the provisions of section 100 of the Companies Act, 2013, Companies (Management and Administration) Rules, 2014 and Secretarial Standard on General Meeting SS-2, an extraordinary general meeting (EGM) of the company may be called by a requisition made by shareholders, either in writing or through electronic mode, at least 21 clear days prior to the proposed date of such a meeting. Such a requisition, signed by the requisitionists, shall set out the matters of consideration for which the meeting is to be called and it shall be sent to the registered office of the company.

Shareholders entitled to make requisition for an EGM regarding any matter, shall be those who hold not less than one-tenth of the paid-up share capital of the company on the date of the requisition.

### PROCEDURE FOR NOMINATING A DIRECTOR ON THE BOARD

Pursuant to section 160 of the Companies Act, 2013, any person, or some shareholders intending to propose such person for appointment as a director of the company, shall deposit a signed notice signifying his/her candidature to the office of a director, at the registered office of the company, not less than 14 days before the shareholders' meeting.

All directors' nominations are considered by the nomination, governance and compensation committee of the company's board of directors, which entirely consists of independent directors.

### INFORMATION ON MEMORANDUM AND ARTICLES OF ASSOCIATION

The company's memorandum and articles of association is available on its website: [www.drreddys.com](http://www.drreddys.com)

**TABLE 9 DATES OF TRANSFER OF UNCLAIMED DIVIDEND ON SHARES/INTEREST AND REDEMPTION AMOUNT ON BONUS DEBENTURES**

FINANCIAL YEAR	TYPE OF PAYMENT	DATE OF DECLARATION/PAYMENT	AMOUNT OUTSTANDING AS ON 31 MARCH 2018	DUE FOR TRANSFER ON
2010-11	Final dividend	21-Jul-11	4,214,497.50	27-Aug-18
2011-12	1st year debenture interest	24-Mar-12	1,340,509.00	23-Mar-19
2011-12	Final dividend	20-Jul-12	5,234,591.25	26-Aug-19
2012-13	2nd year debenture interest	23-Mar-13	1,383,452.55	22-Mar-20
2012-13	Final dividend	31-Jul-13	5,909,100.00	30-Aug-20
2013-14	Debenture redemption and 3rd & final year interest	24-Mar-14	12,273,927.57	23-Mar-21
2013-14	Final dividend	31-Jul-14	7,402,068.00	30-Aug-21
2014-15	Final dividend	31-Jul-15	7,918,300.00	30-Aug-22
2015-16	Final dividend	27-Jul-16	8,788,740.00	30-Aug-23
2016-17	Final dividend	28-Jul-17	17,012,020.00	31-Aug-24

**TABLE 10 UNCLAIMED SHARES AS ON 31 MARCH 2018**

SL. NO.	PARTICULARS	NO. OF FOLIOS	NO. OF SHARES
1.	Aggregate no. of shareholders and the outstanding no. of unclaimed shares at the beginning of the year	3,203	533,803
2.	No. of shareholders who approached to claim the unclaimed shares during the year	115	45,123
3.	Aggregate no. of shareholders who claimed and were given the unclaimed shares during the year	74	32,137
4.	Transferred to Investor Education & Protection Fund	1,028	83,734
5.	Aggregate no. of shareholders and the outstanding no. of unclaimed shares at the end of the year	2,101	417,932

As on 31 March 2018, shareholders holding 43,757 equity shares under 369 folios have lodged claims with the company, for which additional documents have been requested and are awaited from shareholders.

## SHAREHOLDER SERVICES

Please refer to the shareholder services page on the company's website: [www.drreddys.com](http://www.drreddys.com), for procedures related to transfer/dematerialization/rematerialisation/transmission of shares, nomination in respect of shareholding, change of address, unclaimed/unpaid dividend, loss/misplacement of certificate(s), sub-division of shares, share certificates of amalgamated companies, power of attorney, and registration of e-mail ID.

## COMMODITY PRICE RISK OR FOREIGN EXCHANGE RISK

Appropriate disclosure on commodity price or foreign exchange risk and hedging activities is given in note 2.31 of the notes to the standalone financial statement.

## CERTIFICATE FROM THE COMPANY SECRETARY

I, Sandeep Poddar, company secretary of Dr. Reddy's Laboratories Limited, hereby confirm that as on date of this certificate, the company has:

- Complied with the provisions of applicable rules and regulations framed by the Securities and Exchange Board of India and the Companies Act, 2013, as amended, effective as on date, and applicable to the company;
- Maintained all books of accounts and statutory registers prescribed under the Companies Act, 2013;
- Filed all forms and returns and furnished all necessary particulars to the Registrar of Companies and/or authorities as required under the Companies Act, 2013;
- Conducted the board meetings, annual general meeting and postal ballot as per the Companies Act, 2013 and the minutes thereof were properly recorded in the minutes books;
- Effected share transfers and dispatched the certificates within the time limit prescribed by various authorities;

- Not exceeded the borrowing or investment limits; and
- Paid dividend to the shareholders, transferred the unpaid dividends and the underlying shares in respect of which dividend has remained unpaid or unclaimed for seven consecutive years to the Investor Education and Protection Fund (IEPF) within the time limit and has also complied with the provisions of the IEPF Authority (Accounting, Audit, Transfer and Refund) Rules, 2016 as amended.

The certificate is given by the undersigned according to the best of his knowledge and belief and based on the available information and records, knowing that on the faith and strength of what is stated above, full reliance will be placed on it by the shareholders of the company.

**Sandeep Poddar**  
Company Secretary

Place : Hyderabad  
Date : 22 May 2018

## FACILITY LOCATIONS IN INDIA

### ACTIVE PHARMACEUTICAL INGREDIENTS (API) FACILITIES

#### API HYDERABAD PLANT 1

Plot No. 137 & 138,  
IDA Bollaram, Jinnaram Mandal,  
Medak District, Telangana,  
Pin: 502 325

#### API HYDERABAD PLANT 2

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

#### API HYDERABAD PLANT 3

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

#### API HYDERABAD PLANT 4

Plot No. 9/A, 9/B, 22A, 22B & 22C,  
Phase - III, IDA Jeedimetla,  
Quthbullapur Mandal,  
Medchal-Malkajgiri District,  
Telangana,  
Pin: 500 055

#### API NALGONDA PLANT

Peddadevulapally,  
Tripuraram Mandal,  
Nalgonda District, Telangana,  
Pin: 508 207

#### API SRIKAKULAM PLANT

IDA Pydibheemavaram,  
Ransthalam Mandal,  
Srikakulam District,  
Andhra Pradesh,  
Pin: 532 409

#### API SRIKAKULAM PLANT (SEZ)

Sector No. 28 & 34,  
Devunipalavalasa Village,  
Ranastalam Mandal,  
Srikakulam District,  
Andhra Pradesh,  
Pin: 532 409

### FORMULATIONS MANUFACTURING FACILITIES

#### FORMULATIONS HYDERABAD PLANT 1

Plot No. 146,  
IDA Bollaram, Jinnaram Mandal,  
Medak District, Telangana,  
Pin: 502 320

#### FORMULATIONS HYDERABAD PLANT 2

S Y No. 42, 45, 46 & 54,  
Bachupally, Qutubullapur Mandal,  
Medchal-Malkajgiri District, Telangana,  
Pin: 500 123

#### FORMULATIONS HYDERABAD PLANT 3

S Y No. 41,  
Bachupally, Qutubullapur Mandal,  
Medchal-Malkajgiri District, Telangana,  
Pin: 500 123

#### FORMULATIONS BADDI PLANT 1

Khol, Nalagarh, Nalagarh Road,  
Solan District, Baddi, Himachal Pradesh,  
Pin: 173 205

#### FORMULATIONS BADDI PLANT 2

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

#### FORMULATIONS VIZAG SEZ PLANT 1

Plot No. P1-P9, Phase III,  
Duvvada, VSEZ, Visakapatnam,  
Andhra Pradesh,  
Pin: 530 046

#### FORMULATIONS VIZAG SEZ PLANT 2

Plot No. Q1 to Q5, Phase III,  
Duvvada, VSEZ, Visakhapatnam,  
Andhra Pradesh,  
Pin: 530 046

#### FORMULATIONS SRIKAKULAM PLANT (SEZ)

Sector No. 9-13 & 17-20,  
Devunipalavalasa Village,  
Ranastalam Mandal,  
Srikakulam District, Andhra Pradesh,  
Pin: 532 409

#### FORMULATIONS SRIKAKULAM PLANT (SEZ) UNIT II

Sector No. 9-13 & 17-20,  
Devunipalavalasa Village,  
Ranastalam Mandal, Srikakulam District,  
Andhra Pradesh,  
Pin: 532 409

### FORMULATIONS INJECTABLES PLANT

APIIC Industrial Estate,  
Pydibheemavaram Village,  
Ranastalam Mandal,  
Srikakulam District,  
Andhra Pradesh,  
Pin: 532 409

### BIOLOGICS

Survey No. 47, Bachupally Village,  
Qutubullapur Mandal,  
Medchal-Malkajgiri District,  
Telangana,  
Pin: 500 123

### RESEARCH AND DEVELOPMENT FACILITIES

#### INTEGRATED PRODUCT DEVELOPMENT ORGANISATION (IPDO)

Bachupally Village,  
Qutubullapur Mandal,  
Medchal-Malkajgiri District, Telangana,  
Pin: 500 123

#### IPDO, BENGALURU

39-40, KIADB Industrial Area,  
Electronic City Phase II,  
Hosur Road, Bengaluru,  
Karnataka,  
Pin: 560 100

#### AURIGENE DISCOVERY TECHNOLOGIES LIMITED (ADTL), BENGALURU

39-40, KIADB Industrial Area,  
Electronic City Phase II,  
Hosur Road, Bengaluru,  
Karnataka,  
Pin: 560 100

#### ADTL, HYDERABAD

Bollaram Road, Miyapur,  
Hyderabad, Telangana,  
Pin: 500 049

#### TECHNOLOGY DEVELOPMENT CENTRE 1

Bollaram Road, Miyapur,  
Hyderabad, Telangana,  
Pin: 500 049

#### TECHNOLOGY DEVELOPMENT CENTRE 2

Plot 31A IDA,  
Jeedimetla, Hyderabad, Telangana,  
Pin: 500 050

## FACILITY LOCATIONS OUTSIDE INDIA

### ACTIVE PHARMACEUTICAL INGREDIENTS (API) FACILITIES

#### API CUERNAVACA PLANT

Industrias Quimicas Falcon De Mexico S.A. de C.V.,  
Carretera Federal Cuernavaca-Cuautla  
KM 4.5 CIVAC, Jiutepec Morelos,  
Mexico 62578

#### API MIRFIELD PLANT

Dr. Reddy's laboratories (EU) Ltd.  
Stearnard Lane,  
Mirfield, West Yorkshire,  
WF 14, 8HZ,  
United Kingdom

#### API MIDDLEBURGH PLANT

Dr. Reddy's Laboratories New York Inc.  
1974 Route 145, P.O. Box 500,  
Middleburgh,  
New York 12122, USA

### FORMULATIONS MANUFACTURING FACILITIES

#### DR. REDDY'S LABORATORIES (UK) LIMITED

6, Riverview Road,  
Beverly, East Yorkshire,  
HU 17 OLD, United Kingdom

#### FORMULATIONS SHREVEPORT PLANT

Dr. Reddy's Laboratories Louisiana LLC  
8800 Line Avenue,  
Shreveport,  
Louisiana 7110-6717,  
USA

#### FORMULATIONS BRISTOL PLANT

Dr. Reddy's Laboratories Tennessee LLC  
P.O. Box 9002,  
201 Industrial Drive,  
Bristol, Tennessee 37621-9002,  
USA

#### KUNSHAN ROTAM REDDY PHARMACEUTICAL CO. LIMITED

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

### RESEARCH AND DEVELOPMENT FACILITIES

#### TECHNOLOGY DEVELOPMENT CENTRE, CAMBRIDGE

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

#### TECHNOLOGY DEVELOPMENT CENTRE, LEIDEN

Dr. Reddy's Research and  
Development B V,  
Zernikedreef 12, 2333 CL Leiden,  
The Netherlands

#### AURIGENE DISCOVERY TECHNOLOGIES, (MALAYSIA) SDN BHD

Level 2, Research Management &  
Innovation Complex,  
University of Malaya,  
Lembah Pantai 50603  
Kuala Lumpur, Malaysia

# Board's Report

Dear Members,

Your directors are pleased to present the 34th annual report for the year ended 31 March 2018.

## FINANCIAL HIGHLIGHTS

**Table 1** gives the consolidated and standalone financial highlights of the company based on Ind AS for FY2018 (i.e. from 1 April 2017 to 31 March 2018) compared to the previous financial year.

## COMPANY AFFAIRS

The company's consolidated total income for the year was ₹ 144.36 billion, which was marginally up by 0.5% over the previous year. In US\$ terms, this amounted to US\$ 2.22 billion. Profit before taxes (PBT) was ₹ 13.5 billion, representing a decline of 13% over the previous year. In US\$ terms, this translated to US\$ 207 million.

The company's standalone total income for the year was ₹ 95.63 billion, or a decline of 7% over the previous year. In US\$, this amounted to US\$ 1.47 billion. PBT was ₹ 7 billion, or a reduction of 55% over the previous year. In US\$ terms, this translated to US\$ 107 million.

Revenues from Global Generics declined by 1% and stood at ₹ 114 billion. There was growth across Emerging Markets and India, partially offset by decline in North America Generics.

Revenues from North America declined by 6%, to ₹ 59.8 billion. This was largely on account of higher price erosions due to channel consolidation and increased competition in some of our key molecules, such as valganciclovir, azacytidine and decitabine. This was partly offset by revenue contribution of some new products.

During the year, the company launched several new products including gVyturin, gDoxil, gRenvela, gAloxi etc. The company filed 19 abbreviated new drug applications (ANDAs) and one new drug application (NDA) under section 505(b)(2) of the Federal Food, Drug and Cosmetic Act (FD&C Act) in the USA. As of 31 March 2018, there were 110 generic filings awaiting approval with the US Food and Drug Administration or USFDA, comprising 107 ANDAs and three NDAs filed under section 505(b)(2). Of these 107 ANDAs, 63 are Para IVs, out of which 30 are believed to have 'First to File' status.

Revenues from Emerging Markets was ₹ 22.7 billion, registering a year-on-year growth of 8%. Revenues from India stood at ₹ 23.3 billion, registering a year-on-year growth of 1%.

Revenues from PSAI stood at ₹ 22 billion, registering a year-on-year growth of 3%. During the year, the company filed 12 drug master files (DMFs) in the US.

## DIVIDEND

Your directors are pleased to recommend a dividend of ₹ 20/- (400%) for FY2018, on every equity share of ₹ 5/-. The dividend, if approved at the 34th annual general meeting (AGM), will be paid to those shareholders whose names appear on the register of members of the company as of end of the day on 17 July 2018.

In terms of regulation 43A of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations), the company's dividend distribution policy is attached as **Annexure I** to the board's report.

**TABLE 1 FINANCIAL HIGHLIGHTS**

	(₹ MILLION)			
	CONSOLIDATED		STANDALONE	
	FY2018	FY2017	FY2018	FY2017
Total income	144,362	143,676	95,633	103,110
Profit before depreciation, amortization and tax	24,276	25,803	14,711	22,796
Depreciation and amortization	10,772	10,266	7,741	7,351
Profit before tax	13,504	15,537	6,970	15,445
Tax expense	4,380	2,965	1,301	1,604
Profit after tax	9,124	12,572	5,669	13,841
Share of profit of equity accounted investees, net of tax	344	349	-	-
<b>Net profit for the year</b>	<b>9,468</b>	<b>12,921</b>	<b>5,669</b>	<b>13,841</b>
Add: surplus at the beginning of the year	90,771	82,595	89,063	79,930
<b>Total available for appropriation</b>	<b>100,239</b>	<b>95,516</b>	<b>94,732</b>	<b>93,771</b>
<b>Appropriations:</b>				
Dividend paid during the year	3,316	3,312	3,316	3,312
Tax on dividend paid	676	674	676	674
Credit of dividend distribution tax	-	(596)	-	(633)
Transfer to general reserve	-	1,355	-	1,355
<b>Balance carried forward</b>	<b>96,247</b>	<b>90,771</b>	<b>90,740</b>	<b>89,063</b>

Note: FY2018 represents fiscal year 2017-18, from 1 April 2017 to 31 March 2018, and analogously for FY2017 and other such labeled years.



### TRANSFER TO RESERVES

The company has not proposed to transfer any amount to the general reserve.

### SHARE CAPITAL

The paid-up share capital of your company increased by ₹ 0.85 million to ₹ 829.56 million in FY2018 due to allotment of 169,194 equity shares, on exercise of stock options by eligible employees through the 'Dr. Reddy's Employees Stock Option Scheme, 2002' and 'Dr. Reddy's Employees ADR Stock Option Scheme, 2007'.

### FIXED DEPOSITS

The company has not accepted any deposits covered under chapter V of the Companies Act, 2013. Accordingly, no disclosure or reporting is required in respect of details relating to deposits.

### CHANGE IN THE NATURE OF BUSINESS, IF ANY

During the year, there was no change in the nature of business of the company or any of its subsidiaries.

### MATERIAL CHANGES AND COMMITMENTS AFFECTING THE FINANCIAL POSITION OF THE COMPANY

None.

### SUBSIDIARIES AND ASSOCIATES

The company had 51 subsidiaries and two joint venture companies as on 31 March 2018. During FY2018, Dr. Reddy's Laboratories Chile SpA. (in Chile), Dr. Reddy's (WUXI) Pharmaceutical Co. Limited (in China), Dr. Reddy's Laboratories Malaysia Sdn. Bhd. (in Malaysia) and Dr. Reddy's Laboratories Taiwan Limited (in Taiwan) have become subsidiary companies. DRSS Solar Power Private Limited was closed and ceased to be a joint venture company.

Section 129(3) of the Companies Act, 2013 states that where the company has one or more subsidiaries, it shall, in addition to its financial statements, prepare a consolidated financial statement of the company and of all subsidiaries in the same form and manner as that of its

own and also attach along with its financial statement, a separate statement containing the salient features of the financial statements of its subsidiaries.

Hence, the consolidated financial statements of the company and all its subsidiaries and joint ventures, prepared in accordance with Indian Accounting Standards (Ind AS) 110 and 111 as specified in the Companies (Indian Accounting Standards) Rules, 2015, form part of the annual report. Moreover, a statement containing the salient features of the financial statement of the company's subsidiaries and joint ventures in the prescribed Form AOC-1, is attached as **Annexure II** to the board's report. This statement also provides details of the performance and financial position of each subsidiary and joint venture.

In accordance with section 136 of the Companies Act, 2013, the audited financial statements and related information of the subsidiaries, wherever applicable, are available for inspection during regular business hours at our registered office in Hyderabad, India. These are also available on the company's website, [www.drreddys.com](http://www.drreddys.com).

### PARTICULARS OF LOANS, GUARANTEES OR INVESTMENTS

The company makes investments or extends loans/guarantees to its wholly-owned subsidiaries for their business purposes. Details of loans, guarantees and investments covered under section 186 of the Companies Act, 2013, along with the purpose for which such loan or guarantee was proposed to be utilized by the recipient, form part of the notes to the financial statements provided in this annual report.

### CORPORATE GOVERNANCE AND ADDITIONAL SHAREHOLDERS' INFORMATION

A detailed report on the corporate governance systems and practices of the company is given in a separate chapter of this annual report. Similarly, other information for shareholders is provided in the chapter on *Additional Shareholders' Information*. A certificate from the statutory auditors of the company confirming compliance with the conditions of corporate governance is attached to the chapter on *Corporate Governance*.

### MANAGEMENT DISCUSSION AND ANALYSIS

A detailed report on the *Management Discussion and Analysis* in terms of the provisions of regulation 34 of the Listing Regulations is provided as a separate chapter in the annual report.

### BOARD OF DIRECTORS AND KEY MANAGERIAL PERSONNEL

The term of Dr. Ashok S Ganguly as an independent director of the company ended on 28 July 2017. The board places on record its appreciation for the services rendered by Dr. Ganguly during his tenure as a member of the board and its committees.

The board of directors on 30 October 2017, appointed Mr. Prasad R Menon, as an additional director of the Company, categorized as independent. The Board recommends appointment of Mr. Menon as an independent director under section 149 of the Companies Act, 2013 for a term of five years with effect from 30 October 2017, for approval of the shareholders at the forthcoming 34th AGM scheduled on 27 July 2018.

In accordance with section 149(7) of the Companies Act, 2013, each independent director has confirmed to the company that he or she meets the criteria of independence laid down in section 149(6) of the Companies Act, 2013 and regulation 16(1)(b) of the Listing Regulations.

The term of Mr. Anupam Puri as an independent director of the company is ending at the 34th AGM. The board recommends reappointment of Mr. Puri as an independent director under section 149 of the Companies Act, 2013 for a further term of one year, for approval of the shareholders at the forthcoming 34th AGM scheduled on 27 July 2018.

Mr. K Satish Reddy, retires by rotation at the forthcoming 34th AGM and being eligible, seeks reappointment.

Brief profiles of Mr. Prasad R Menon, Mr. Anupam Puri and Mr. K Satish Reddy are given in the chapter on *Corporate Governance* and the *Notice* convening the 34th AGM for reference of the shareholders.

## BOARD EVALUATION

As per provisions of the Companies Act, 2013 and regulation 17(10) of the Listing Regulations, an evaluation of the performance of the board, its committees and members was undertaken. For details, please see the chapter on *Corporate Governance* in this annual report.

## APPOINTMENT OF DIRECTORS AND REMUNERATION POLICY

The assessment and appointment of members to the board is based on a combination of criterion that includes ethics, personal and professional stature, domain expertise, gender diversity and specific qualification required for the position. A potential board member is also assessed on the basis of independence criteria defined in section 149(6) of the Companies Act, 2013 and regulation 16(1)(b) of the Listing Regulations.

In accordance with section 178(3) of the Companies Act, 2013, regulation 19(4) of the Listing Regulations and on recommendations of the company's nomination, governance and compensation committee, the board adopted a remuneration policy for directors, key managerial personnel (KMPs), senior management and other employees. The policy is attached in the chapter on *Corporate Governance*.

## NUMBER OF BOARD MEETINGS

The board of directors met five times during the year. In addition, an annual board retreat was held to discuss strategic matters. Details of board meetings are given in the chapter on *Corporate Governance*.

## AUDIT COMMITTEE

The audit committee of the board of directors consists entirely of independent directors. Presently, the committee comprises Mr. Sridar Iyengar (chairman), Dr. Omkar Goswami and Mr. Bharat N Doshi. Further details can be seen in the chapter on *Corporate Governance*. The board has accepted all recommendations made by the audit committee during the year.

## BUSINESS RISK MANAGEMENT

The company has a risk management committee of the board, consisting entirely of independent directors. Details of the committee and its terms of reference are set out in the chapter on *Corporate Governance*.

The audit and risk management committees review key risk elements of the company's business, finance, operations and compliance, and respective mitigation strategies. The risk management committee reviews key strategic, business, compliance and operational risks, while issues around ethics and fraud, internal control over financial reporting (ICOFR), as well as process risks and their mitigation are reviewed by the audit committee.

The company's finance, investment and risk management council (FIRM council) is a management level committee which operates under a charter and focuses on risks associated with the company's business and investments. The FIRM council periodically reviews matters pertaining to risk management, compliance, ethics and fraud. Additionally, the enterprise-wide risk management (ERM) function helps management and the board to periodically prioritize, review and measure business risks against a pre-determined risk appetite, and their suitable response, depending on whether such risks are internal, strategic or external.

During FY2018, focus areas of risk management committee included progress on cyber security, data privacy, quality and regulatory, geo-political risk, compliance, patent infringement risk exposures as well as safety and health.

## ADEQUACY OF INTERNAL FINANCIAL CONTROL SYSTEMS

The company has in place adequate internal financial controls with reference to its financial statements. These controls ensure the accuracy and completeness of the accounting records and the preparation of reliable financial statements.

## DIRECTORS' RESPONSIBILITY STATEMENT

In terms of section 134(5) of the Companies Act, 2013, ('the Act'), your directors state that:

1. applicable accounting standards have been followed in the preparation of the annual accounts;
2. accounting policies have been selected and applied consistently. 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 FY2018 and of the 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 the Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
4. annual accounts have been prepared on a going concern basis;
5. adequate internal financial controls for the company to follow have been laid down and these are operating effectively; and
6. proper and adequate systems have been devised to ensure compliance with the provisions of all applicable laws and these systems are operating effectively.

## RELATED PARTY TRANSACTIONS

In accordance with section 134(3)(h) of the Companies Act, 2013 and rule 8(2) of the Companies (Accounts) Rules, 2014, the particulars of contract or arrangement entered into by the company with related parties referred to in section 188(1) of the Companies Act, 2013 in Form AOC-2 is attached as **Annexure III**. All such contracts or arrangements are in the interest of the company. Details of related party disclosures form part of the notes to the financial statements provided in this annual report.

## VIGIL MECHANISM/WHISTLE-BLOWER POLICY

The company has an ombudsperson policy (whistle-blower/vigil mechanism) to report concerns. The vigil mechanism consists of a hotline – a dedicated e-mail ID and a phone number. The

ombudsperson policy safeguards from victimization of those who use this mechanism. The audit committee chairperson is the chief ombudsperson. The policy also provides access to the chairperson of the audit committee under certain circumstances. Details of the policy are available on the company's website, [www.drreddys.com/investors/governance/ombudsperson-policy](http://www.drreddys.com/investors/governance/ombudsperson-policy).

### STATUTORY AUDITORS

M/s. S R Batliboi & Associates LLP, chartered accountants (firm registration No. 101049W/E300004) were appointed as statutory auditors of the company at the 32nd AGM held on 27 July 2016, for a period of five years commencing from the conclusion of 32nd AGM till the conclusion of the 37th AGM, subject to ratification by shareholders every year, as may be applicable. However, the Ministry of Corporate Affairs (MCA) vide its notification dated 7 May 2018 has omitted the requirement under first proviso to section 139 of the Companies Act, 2013 and rule 3(7) of the Companies (Audit and Auditors) Rules, 2014, regarding ratification of appointment of statutory auditors by shareholders at every subsequent AGM.

Consequently, M/s. S R Batliboi & Associates LLP, chartered accountants, continues to be the statutory auditors of the company till the conclusion of 37th AGM, as approved by shareholders at 32nd AGM held on 27 July 2016.

### SECRETARIAL AUDITOR

Pursuant to section 204 of the Companies Act, 2013 and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, Dr. K R Chandratre, practicing company secretary (membership no. FCS 1370 and certificate of practice no. 5144) was appointed to conduct the secretarial audit of the company for FY2018. The secretarial audit report for FY2018 is attached as **Annexure IV**.

Based on the consent received from Dr. K R Chandratre, and on the recommendations of the audit committee, the board has appointed him as the secretarial auditor of the company for FY2019.

### COST AUDITORS

Pursuant to section 148 of the Companies Act, 2013 read with the Companies (Audit and Auditors) Rules, 2014 and the Companies (Cost Records and Audit) Rules, 2014, as amended, the company maintains the cost audit records in respect of its pharmaceutical business. On the recommendation of the audit committee, your board has appointed M/s. Sagar & Associates, cost accountants (firm registration no. 000118) as cost auditors of the company for the FY2019 at a remuneration of ₹ 7 lakhs plus reimbursement of out-of-pocket expenses at actuals and applicable taxes. The provisions also require that the remuneration of the cost auditors be ratified by the shareholders. As a matter of record, relevant cost audit reports for FY2017 were filed with the central government on 24 August 2017, within the stipulated timeline. The cost audit report for FY2018 will also be filed within the timeline.

### BOARD'S RESPONSE ON AUDITORS' QUALIFICATIONS, RESERVATIONS OR ADVERSE REMARKS OR DISCLAIMERS MADE

There are no qualifications, reservations or adverse remarks made by the statutory auditors in their report or by the practicing company secretary in the secretarial audit report. During the year, there were no instances of frauds reported by auditors under section 143(12) of the Companies Act, 2013.

### SIGNIFICANT AND MATERIAL ORDERS PASSED BY THE COURTS/REGULATORS/TRIBUNALS

None

### INFORMATION REQUIRED UNDER SEXUAL HARASSMENT OF WOMEN AT WORKPLACE (PREVENTION, PROHIBITION AND REDRESSAL) ACT, 2013

The company has an apex complaints committee and an internal complaints committee which operate under a defined redressal system for complaints pertaining to sexual

harassment of women at the workplace. Details are available in the principle 3 under section 7 of the *Business Responsibility Report* forming a part of this annual report.

### CORPORATE SOCIAL RESPONSIBILITY (CSR) INITIATIVES

As per section 135 of the Companies Act, 2013, the company has a board-level CSR committee consisting of Mr. Bharat N Doshi (chairman), Mr. G V Prasad and Mr. K Satish Reddy. The company's CSR policy provides a constructive framework to review and organize our social outreach programs in health, livelihood and education. During the year, the committee monitored implementation and adherence to the CSR policy. Details of the CSR policy and initiatives taken by the company during the year are available on the company's website, [www.drreddys.com](http://www.drreddys.com). The report on CSR activities is attached as **Annexure V**.

### BUSINESS RESPONSIBILITY REPORT

A detailed *Business Responsibility Report* as required under regulation 34 of the Listing Regulations, is given as a separate section in this annual report.

### TRANSFER OF UNPAID AND UNCLAIMED AMOUNTS TO INVESTOR EDUCATION AND PROTECTION FUND (IEPF)

Pursuant to the provisions of the Companies Act, 2013, read with IEPF Authority (Accounting, Audit, Transfer and Refund) Rules, 2016, as amended, declared dividends which remained unpaid or unclaimed for a period of seven years have been transferred by the company to the IEPF, which has been established by the central government.

The above-referred rules also mandate transfer of shares on which dividend are lying unpaid and unclaimed for a period of seven consecutive years to IEPF. The company has issued individual notices to the shareholders whose equity shares are liable to be transferred to IEPF, advising them to claim their dividend on or before 5 August 2018.

## EMPLOYEES STOCK OPTION SCHEMES

During the year, there has been no material change in the 'Dr. Reddy's Employees Stock Option Scheme, 2002' and the 'Dr. Reddy's Employees ADR Stock Option Scheme, 2007' (both collectively referred as 'the schemes'). The schemes are in compliance with the SEBI (Share Based Employee Benefits) Regulations, 2014. The details are available on the company's website: [www.drreddys.com/pdf/ESOP\\_details.pdf](http://www.drreddys.com/pdf/ESOP_details.pdf). The details also form part of note 2.24 of the notes to accounts of the standalone financial statements.

## PARTICULARS OF EMPLOYEES

Disclosures pertaining to remuneration and other details as required under section 197(12) of the Companies Act, 2013, read with rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 are attached as **Annexure VI**.

In terms of section 197(12) of the Companies Act, 2013, read with rule 5(2) and 5(3) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, a statement

showing the names and other particulars of the employees drawing remuneration in excess of limits set out in said rules forms part of the annual report.

Considering the first proviso to section 136(1) of the Companies Act, 2013, the annual report, excluding the aforesaid information, is being sent to the shareholders of the company and others entitled thereto. The said information is available for inspection at the registered office of the company during business hours on working days up to the date of the forthcoming 34th AGM. Any shareholder interested in obtaining a copy thereof may write to the company secretary in this regard.

## CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

The particulars as prescribed under section 134(3)(m) of the Companies Act, 2013, read with rule 8(3) of the Companies (Accounts) Rules, 2014 are attached as **Annexure VII**.

## EXTRACT OF THE ANNUAL RETURN

Details forming part of the extract of the annual return in form MGT-9 are attached as **Annexure VIII**.

## ACKNOWLEDGMENT

Your directors place on record their sincere appreciation for the significant contribution made by our employees through their dedication, hard work and commitment, as also for the trust reposed on us by the medical fraternity and patients. The board of directors also acknowledge the support extended by the analysts, bankers, government agencies, media, customers, suppliers, shareholders and investors at large. It looks forward to your continued support in the company's endeavor to accelerate access to innovative and affordable medicines... because *Good Health Can't Wait*.

For and on behalf of the board of directors

**K Satish Reddy**  
Chairman

Place : Hyderabad  
Date : 22 May 2018

## ANNEXURE-I

### DIVIDEND DISTRIBUTION POLICY

*(Originally approved on 18 May 2009 and modified by the board of directors at their meeting held on 25 October 2016)*

#### KEY HIGHLIGHTS

- Dividend payout would be subject to profitability under standalone financials statements prepared under Indian Accounting Standard (Ind AS).
- Special dividend, if any, to be outside the scope of this policy but would be governed by the provisions under the Companies Act, 2013.
- Applicable to Dr. Reddy's Laboratories Limited, India only and not its subsidiaries.

#### INTRODUCTION

The board of directors of Dr. Reddy's Laboratories Limited (Dr. Reddy's or the Company), aims to grow the business lines of the company and enhance the rate of return on investments of the

shareholders. They present the dividend distribution policy, considering:

- a) Preservation of a balance between the expectations of its shareholders and company's own need to grow; and
- b) The profitability of the company.

The policy is intended to ensure a regular dividend payout for maximizing the shareholder's wealth with an objective to distribute a regular dividend through an interim or final dividend or a combination of both.

The annual dividend rate would be recommended by the board of directors and could vary in order to reflect the underlying growth of the company and to maintain a regular dividend payment.

#### APPLICABILITY

This policy is a guiding principle for Dr. Reddy's Laboratories Limited, India.

### STATUTORY PROVISIONS

Under the Companies Act, 2013 and rules made thereunder, a company shall declare or pay dividend, for any financial year, only out of the profits of the company for that financial year. The following points set out the statutory obligations of a company/requirements under the Companies Act, 2013 with respect to declaration/payment of dividend. (section 123).

The dividend shall be declared/paid only out of the profits of the company after providing for depreciation in accordance with the provisions of the law.

The company before declaration of any dividend in any financial year, may transfer such percentage of its profit for that financial year to the general reserve.

However, in case of inadequacy or absence of profits in any year, a

maximum of 10% of paid-up capital can be declared as dividend, subject to other provisions contained in the Companies (Declaration and Payment of Dividend) Rules, 2014.

The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, requires a company to disclose its dividend distribution policy in its annual report and on its website.

**I) DECLARATION**

The declaration of dividend would be subject to compliance with applicable provisions of the Companies Act, 2013 and rules made thereunder, if any.

**II) LOSSES**

Before declaring any dividend, the losses, if any, of any previous year(s) must be set off against the profits of the company for the current year or previous years.

**III) DECLARATION OF DIVIDEND OUT OF RESERVES**

The declaration of dividend out of reserves or accumulated profit & loss account may be as per the provisions of the Companies Act, 2013 and rules made thereunder, if any.

**IV) AMOUNT OF DIVIDEND**

The Board may endeavor to recommend dividends considering:  
 a) Company's need for capital for its growth/expansion plans; and  
 b) Positive cash flow.

The amount of maximum dividend payout (including interim dividend) is expected to be up to 20% of the cash profit under consolidated financial statement prepared under Indian Accounting Standards (Ind AS).

*Subject to per share amount rounding off to nearest 25 paise and further subject to percentage being adjusted to nearest multiple of 5.*

**V) PARAMETERS TO BE CONSIDERED BEFORE DECLARING DIVIDEND**

The major internal and external factors for deciding on dividend payment are:

1. Current year's earnings
2. Past dividend pattern

3. Liquidity - cash flow
4. Repayment/pre-payment of borrowing
5. Expected future earnings
6. Capital expenditure requirements (retained earnings) requiring ploughing back of profits i.e. future capital expenditure program including
  - a) New projects
  - b) Expansion of capacities of existing units
  - c) Renovation/modernizations
  - d) Acquisition of brands/businesses
  - e) Major repairs & maintenance
7. Likelihood of crystallization of contingent liabilities, if any
8. Contingency fund
9. Sale of brands/businesses
10. Social/geo-political factors/risks
11. Regulatory or proposed regulatory requirements
12. Currency risk

Prior to declaration/recommendation of any dividend as per this policy, the company may consider any applicable covenants/conditions or restrictions imposed by any lenders, JV partners of the company or its subsidiaries. The company may decide to retain earnings in entirety for a particular year(s) for its growth/expansion, consequently resulting in shareholders' wealth creation.

**VI) TIMING**

**1. INTERIM DIVIDEND**

The board may declare the interim dividend, based on review of profits earned during the current year - to date.

The interim dividend may be declared during the tenure of the financial year i.e. normally at the time of reviewing and approving the quarterly/half-yearly financial results.

**2. FINAL DIVIDEND**

The board may recommend the final dividend, subject to the approval of the members of the company, based on profitability of the company as per the annual audited financial statements. The final dividend may be recommended once in

a year and shall be subject to the approval of the members of the company at their meeting held for the purpose.

In addition to the above, the board of directors of the company may also consider declaration of any special dividend, on special occasions, as and when they may deem fit, subject to provisions of the Companies Act, 2013 rules made thereunder and other relevant requirements, if any.

**VII) CLASSES OF SHARES**

At present, the issued and paid-up share capital of the company comprises only of equity shares. As and when the company issues any other class(es) of shares, the board of directors may suitably declare dividend on such class(es) in accordance with the provisions of the Companies Act, 2013.

**VIII) TAXATION**

The company shall be responsible for payment of dividend distribution tax as per the provisions of Income Tax Act, 1961 or such other amendments from time to time.

However, the Income Tax liability, if such is applicable, on the dividend earned by the shareholders under the Income Tax Act, 1961 or such other amendment from time to time shall be borne by the respective shareholders and if required under the then prevalent Income Tax laws, the payment shall also be subject to deduction of tax at source.

**IX) PERIODIC REVIEW OF THIS POLICY; AMENDMENTS**

The board may amend, modify, repeal or waive any of the stipulations of this policy at any time, as it determines necessary or appropriate, in the exercise of its judgment or fiduciary duties and as per the provisions of the Companies Act.

**K Satish Reddy**  
 Chairman

Place : Hyderabad  
 Date : 22 May 2018

## ANNEXURE-II

## FORM AOC-1

(Pursuant to first proviso to sub-section (3) of section 129 read with rule 5 of Companies (Accounts) Rules, 2014)

Statement containing salient features of the financial statement of subsidiaries/associate companies/joint ventures

## Part "A": Subsidiaries

All amounts in Indian Rupees millions, except share data and where otherwise stated

SL. NO.	NAME OF THE SUBSIDIARY	AS AT 31 MARCH 2018										FOR THE YEAR ENDED 31 MARCH 2018				
		REPORTING PERIOD FOR THE SUBSIDIARY	% OF SHAREHOLDING	REPORTING CURRENCY	EXCHANGE RATE	SHARE CAPITAL	RESERVES & SURPLUS	OTHER LIABILITIES	TOTAL LIABILITIES	TOTAL ASSETS	INVESTMENTS*	TURNOVER	PROFIT/(LOSS) BEFORE TAXATION	PROVISION FOR TAXATION	PROFIT/(LOSS) AFTER TAXATION	PROPOSED DIVIDEND
1	Aurigene Discovery Technologies (Malaysia) Sdn. Bhd.	31-03-2018	100%	MYR	16.87	16	17	2	35	35	20	25	6	-	6	-
2	Aurigene Discovery Technologies, Inc.	31-03-2018	100%	US\$	65.18	257	(256)	-	1	1	-	-	-	-	-	-
3	Aurigene Discovery Technologies Limited	31-03-2018	100%	INR	1.00	905	(168)	3,090	3,827	3,827	2,327	1,856	414	36	378	-
4	beta Institut gemeinnützige GmbH <sup>(4)</sup>	31-03-2018	100%	EUR	80.81	5	2	3	10	10	-	-	-	-	-	-
5	betapharm Arzneimittel GmbH <sup>(4)</sup>	31-03-2018	100%	EUR	80.81	60	2	5,421	5,483	5,483	-	6,761	9	-	9	-
6	Cheminor Investments Limited	31-03-2018	100%	INR	1.00	1	-	-	1	1	-	-	-	-	-	-
7	Chiretech Technology Limited	31-03-2018	100%	GBP	92.28	1,060	59	141	1,260	1,260	-	-	141	-	141	-
8	DRL Impex Limited	31-03-2018	100%	INR	1.00	760	(762)	16	14	14	-	-	-	-	-	-
9	Dr. Reddy's Bio-Sciences Limited	31-03-2018	100%	INR	1.00	540	(243)	68	365	365	-	-	(38)	-	(38)	-
10	Dr. Reddy's Farmaceutica Do Brasil Ltda.	31-03-2018	100%	BRL	19.59	818	(1,446)	1,383	755	755	-	486	(234)	-	(234)	-
11	Dr. Reddy's Laboratories (Australia) Pty. Limited	31-03-2018	100%	AUD	50.05	35	(377)	783	441	441	-	750	44	(82)	126	-
12	Dr. Reddy's Laboratories Canada, Inc.	31-03-2018	100%	CAD	50.65	-	107	156	263	263	-	403	1	-	1	-
13	Dr. Reddy's Laboratories Chile SPA. (from 16 June 2017)	31-03-2018	100%	CLP	0.11	32	(35)	30	27	27	-	5	(35)	-	(35)	-
14	Dr. Reddy's Laboratories (EU) Limited	31-03-2018	100%	GBP	92.28	723	3,624	1,710	6,057	6,057	-	2,688	1,111	197	914	-
15	Dr. Reddy's Laboratories, Inc. <sup>(1)</sup>	31-03-2018	100%	US\$	65.18	580	19,463	33,337	53,380	53,380	-	60,832	2,246	1,143	1,103	-
16	Dr. Reddy's Laboratories International SA	31-03-2018	100%	CHF	68.50	275	2	1	278	278	-	-	2	-	2	-
17	Dr. Reddy's Laboratories Japan KK	31-03-2018	100%	JPY	0.62	20	(18)	-	2	2	-	-	(12)	-	(12)	-
18	Dr Reddy's Laboratories Kazakhstan LLP	31-03-2018	100%	KZT	0.20	81	107	562	750	750	-	1,181	138	27	111	-
19	Dr. Reddy's Laboratories LLC	31-03-2018	100%	UAH	2.46	71	(48)	1,157	1,180	1,180	-	2,148	(8)	20	(28)	-
20	Dr. Reddy's Laboratories Louisiana, LLC <sup>(1)</sup>	31-03-2018	100%	US\$	65.18	-	291	3,718	4,009	4,009	-	1,916	(1,505)	-	(1,505)	-
21	Dr. Reddy's Laboratories Malaysia Sdn. Bhd. (from 10 July 2017)	31-03-2018	100%	MYR	16.87	32	(14)	2	20	20	-	-	(14)	-	(14)	-
22	Dr. Reddy's Laboratories New York, Inc.	31-03-2018	100%	US\$	65.18	-	(1,071)	2,056	985	985	-	-	(494)	-	(494)	-
23	Dr. Reddy's Laboratories (Proprietary) Limited	31-03-2018	100%	ZAR	5.58	-	196	645	841	841	-	1,333	63	20	43	-
24	Dr. Reddy's Laboratories Romania S.R.L.	31-03-2018	100%	RON	17.25	24	212	42	278	278	-	478	74	5	69	-
25	Dr. Reddy's Laboratories SA	31-03-2018	100%	US\$	65.18	5,027	34,133	29,680	68,840	68,840	-	15,635	1,571	182	1,389	-
26	Dr. Reddy's Laboratories S.A.S.	31-03-2018	100%	COP	0.02	49	(5)	207	251	251	-	297	48	1	47	-
27	Dr. Reddy's Laboratories Taiwan Limited (from 23 February 2018)	31-03-2018	100%	TWD	2.23	13	(1)	-	12	12	-	-	(1)	-	(1)	-
28	Dr. Reddy's Laboratories Tennessee, LLC <sup>(1)</sup>	31-03-2018	100%	US\$	65.18	1,120	(3,387)	2,631	364	364	-	233	(410)	-	(410)	-
29	Dr. Reddy's Laboratories (UK) Limited	31-03-2018	100%	GBP	92.28	-	2,441	696	3,137	3,137	-	3,404	911	123	788	-

All amounts in Indian Rupees millions, except share data and where otherwise stated

SL. NO.	NAME OF THE SUBSIDIARY	AS AT 31 MARCH 2018									FOR THE YEAR ENDED 31 MARCH 2018						
		REPORTING PERIOD FOR THE SUBSIDIARY	% OF SHAREHOLDING	REPORTING CURRENCY	EXCHANGE RATE	SHARE CAPITAL	RESERVES & SURPLUS	OTHER LIABILITIES	TOTAL LIABILITIES	TOTAL ASSETS	INVESTMENTS*	TURNOVER	PROFIT/(LOSS) BEFORE TAXATION	PROVISION FOR TAXATION	PROFIT/(LOSS) AFTER TAXATION	PROPOSED DIVIDEND	
30	Dr. Reddy's Research and Development B.V.	31-03-2018	100%	EUR	80.81	460	(1,055)	3,856	3,261	3,261	-	1,044	(84)	39	(123)	-	
31	Dr. Reddys Singapore Pte. Limited.	31-03-2018	100%	SGD	49.82	25	16	-	41	41	-	-	-	-	-	-	
32	Dr. Reddy's S.R.L.	31-03-2018	100%	EUR	80.81	6	(851)	1,196	351	351	-	208	20	-	20	-	
33	Dr. Reddy's New Zealand Limited	31-03-2018	100%	NZD	47.32	-	60	17	77	77	-	79	8	-	8	-	
34	Dr. Reddy's (WUXI) Pharmaceutical Co. Limited (from 2 June 2017)	31-03-2018	100%	RMB	10.36	65	(58)	36	43	43	-	-	(58)	-	(58)	-	
35	Dr. Reddy's Venezuela, C.A.	31-03-2018	100%	VEF	0.00 <sup>(2)</sup>	58	(4,198)	4,284	144	144	-	-	(111)	-	(111)	-	
36	Eurobridge Consulting B.V.	31-03-2018	100%	EUR	80.81	37	453	1,906	2,396	2,396	-	-	(3)	-	(3)	-	
37	Idea2Enterprises (India) Private Limited	31-03-2018	100%	INR	1.00	25	1,511	4	1,540	1,540	-	-	-	-	-	-	
38	Imperial Credit Private Limited	31-03-2018	100%	INR	1.00	12	10	-	22	22	22	-	1	-	1	-	
39	Industrias Quimicas Falcon de Mexico, S.A. de CV	31-03-2018	100%	MXN	3.57	594	95	3,336	4,025	4,025	-	3,822	281	33	248	-	
40	Kunshan Rotam Reddy Pharmaceutical Company Limited <sup>(3)</sup>	31-03-2018	51.33%	RMB	10.36	-	-	-	-	-	-	-	-	-	-	354	-
41	Lacock Holdings Limited	31-03-2018	100%	EUR	80.81	1	129	25	155	155	-	-	(2)	-	(2)	-	
42	OOO Dr. Reddy's Laboratories Limited	31-03-2018	100%	RUB	1.13	738	1,244	11,519	13,501	13,501	-	15,544	239	75	164	-	
43	OOO DRS LLC	31-03-2018	100%	RUB	1.13	30	85	110	225	225	-	-	(4)	-	(4)	-	
44	Promius Pharma, LLC <sup>(1)</sup>	31-03-2018	100%	US\$	65.18	1,713	(13,314)	13,172	1,571	1,571	-	3,973	(737)	-	(737)	-	
45	Reddy Antilles N.V.	31-03-2018	100%	US\$	65.18	52	(316)	358	94	94	-	-	(130)	-	(130)	-	
46	Reddy Holding GmbH <sup>(4)</sup>	31-03-2018	100%	EUR	80.81	2	20,010	6,189	26,201	26,201	-	-	1,095	363	732	-	
47	Reddy Netherlands B.V.	31-03-2018	100%	EUR	80.81	7	2,850	17	2,874	2,874	-	-	137	-	137	-	
48	Reddy Pharma Iberia S.A.U.	31-03-2018	100%	EUR	80.81	566	(590)	83	59	59	-	25	(66)	-	(66)	-	
49	Reddy Pharma Italia S.R.L.	31-03-2018	100%	EUR	80.81	63	(40)	1,214	1,237	1,237	-	-	(1)	-	(1)	-	
50	Reddy Pharma S.A.S.	31-03-2018	100%	EUR	80.81	167	(153)	41	55	55	-	9	(94)	-	(94)	-	
51	Regkinetics Services Limited (formerly Dr. Reddy's Pharma SEZ Limited)	31-03-2018	100%	INR	1.00	201	(3)	-	198	198	-	-	(2)	-	(2)	-	

\* Includes all investments excluding investment in subsidiaries.

<sup>(1)</sup> Tax expense for these entities is computed together as per the tax laws of the United States. The total tax expense is presented in sl. no. 15 - Dr. Reddy's Laboratories, Inc.<sup>(2)</sup> The company has used DICOM rate of VEF 49,375 per US\$ in the consolidated financial statements for translating Venezuelan subsidiary's net monetary assets.<sup>(3)</sup> The investment has been accounted using equity method. Refer note 2.23 of the consolidated financial statements.<sup>(4)</sup> Tax expense for these entities is computed together as per the tax laws of Germany. The total tax expense is presented in sl. no. 46 - Reddy Holding GmbH.

## Part "B": Associates and Joint Ventures

SL. NO.	NAME OF THE ASSOCIATE/ JOINT VENTURE	LATEST AUDITED BALANCE SHEET DATE	SHARES OF ASSOCIATE/JOINT VENTURES HELD BY THE COMPANY ON THE YEAR END			NET WORTH ATTRIBUTABLE TO SHAREHOLDING AS PER LATEST AUDITED BALANCE SHEET	PROFIT/(LOSS) FOR THE YEAR		DESCRIPTION OF HOW THERE IS A SIGNIFICANT INFLUENCE	REASON WHY THE ASSOCIATE/ JOINT VENTURE IS NOT CONSOLIDATED
			NO.	AMOUNT OF INVESTMENT IN ASSOCIATES/JOINT VENTURE	EXTENT OF HOLDING %		CONSIDERED IN CONSOLIDATION	NOT CONSIDERED IN CONSOLIDATION		
1	DRANU LLC	NA	NA	360	50%	-	-	-	NA	NA
2	DRSS Solar Power Private Limited <sup>(1)</sup>	31-03-18	-	-	-	-	-	-	-	-
3	DRES Energy Private Limited	31-03-18	8,580,000	86	26%	-	(10)	(29)	NA	NA

<sup>(1)</sup> DRSS Solar Power Private Limited is liquidated with effect from 1 November 2017.

for and on behalf of the board of directors of Dr. Reddy's Laboratories Limited

Place : Hyderabad  
Date : 22 May 2018

**K Satish Reddy**  
**G V Prasad**  
**Saumen Chakraborty**  
**Sandeep Poddar**

Chairman  
Co-Chairman & Chief Executive Officer  
Chief Financial Officer  
Company Secretary

## ANNEXURE-III

## FORM NO. AOC-2

**(Pursuant to clause (h) of sub-section (3) of section 134 of the Companies Act, 2013 and rule 8(2) of the Companies (Accounts) Rules, 2014)**

Form for disclosure of particulars of contracts/arrangements entered into by the company with related parties referred to in sub-section (1) of section 188 of the Companies Act, 2013 including certain arms length transactions under third proviso thereto

## 1. Details of contracts or arrangements or transactions not at arm's length basis: None

(a)	Name(s) of the related party and nature of relationship	
(b)	Nature of contracts/arrangements/transactions	
(c)	Duration of the contracts/arrangements/transactions	
(d)	Salient terms of the contracts/arrangements/transactions including the value, if any	
(e)	Justification for entering into such contracts/arrangements/transactions	Not applicable
(f)	Date(s) of approval by the board	
(g)	Amount paid as advances, if any	
(h)	Date on which the special resolution was passed in general meeting as required under first proviso to section 188	

## 2. Details of material contracts or arrangement or transactions at arm's length basis

(a)	Name(s) of the related party and nature of relationship	Dr. Reddy's Laboratories Inc., USA, wholly-owned subsidiary
(b)	Nature of contracts/arrangements/transactions	Transfer or receipt of products, goods, materials or services
(c)	Duration of the contracts/arrangements/transactions	Ongoing
(d)	Salient terms of the contracts/arrangements/transactions including the value, if any	Transfer or receipt of products, goods, materials or services on arm's length for an estimated amount of up to US\$ 1,100 million every financial year
(e)	Date(s) of approval by the board, if any	13 May 2014
(f)	Amount paid as advances, if any	-

**K Satish Reddy**  
Chairman



## ANNEXURE-IV

**SECRETARIAL AUDIT REPORT  
FOR THE FINANCIAL YEAR ENDED  
31 MARCH 2018**

[Pursuant to section 204(1) of the Companies Act, 2013 and rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014]

To,  
The Members,  
Dr. Reddy's Laboratories Limited,  
8-2-337, Road No. 3, Banjara Hills,  
Hyderabad - 500 034, Telangana, India

I have conducted the secretarial audit of the compliance of applicable statutory provisions and the adherence to good corporate practices by Dr. Reddy's Laboratories Limited (hereinafter called 'the company'). Secretarial audit was conducted in a manner that provided me a reasonable basis for evaluating the corporate conducts/statutory compliances and expressing my opinion thereon.

Based on my verification of the company's books, papers, minute books, forms and returns filed and other records maintained by the company and also the information provided by the company, its officers, agents and authorized representatives during the conduct of secretarial audit, I hereby report that in my opinion, the company has, during the audit period covering the financial year ended on 31 March 2018 ('Audit Period') complied with the statutory provisions listed hereunder and also that the company has proper board-processes and compliance-mechanism in place to the extent, in the manner and subject to the reporting made hereinafter.

I have examined the books, papers, minute books, forms and returns filed and other records maintained by the company for the financial year ended on 31 March 2018 according to the provisions of:

- (i) The Companies Act, 2013 (the Act) and the rules made thereunder;
- (ii) The Securities Contracts (Regulation) Act, 1956 ('SCRA') and the rules made thereunder;
- (iii) The Depositories Act, 1996 and the regulations and bye-laws framed thereunder;
- (iv) Foreign Exchange Management Act, 1999 and the rules and regulations made thereunder to the extent of foreign direct investment, overseas

- direct investment (there were no external commercial borrowings transactions in the company, during the Audit Period);
- (v) The following regulations and guidelines prescribed under the Securities and Exchange Board of India Act, 1992 ('SEBI Act'): –
    - (a) The Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011;
    - (b) The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015;
    - (c) The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 (**not applicable to the company during the Audit Period**);
    - (d) The Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014;
    - (e) The Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008 (**not applicable to the company during the Audit Period**);
    - (f) The Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 regarding the Companies Act and dealing with client;
    - (g) The Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009 (**not applicable to the company during the Audit Period**); and
    - (h) The Securities and Exchange Board of India (Buyback of Securities) Regulations, 1998 (**not applicable to the company during the Audit Period**).
  - (vi) **I further report that**, having regard to the compliance system prevailing in the company and on examination of the relevant documents and records in pursuance thereof, on test-check basis, the company has complied with the following laws applicable specifically to the company:
    - (a) Drugs and Cosmetics Act, 1940 and rules made thereunder; and
    - (b) Drugs (Prices Control) Order, 2013 and notifications made thereunder.

I have also examined compliance with the applicable clauses of the following:

- (i) Secretarial Standards (SS-1 and SS-2) issued by the Institute of Company Secretaries of India; and
- (ii) The Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.

During the period under review the company has complied with the provisions of the act, rules, regulations, guidelines, standards, etc. mentioned above.

**I further report that** the board of directors of the company is duly constituted with proper balance of executive directors and independent directors. The changes in the composition of the board of directors that took place during the period under review were carried out in compliance with the provisions of the Act.

Adequate notice is given to all directors to schedule the board meetings, agenda and detailed notes on agenda were sent at least seven days in advance, and a system exists for seeking and obtaining further information and clarifications on the agenda items before the meeting and for meaningful participation at the meeting.

All decisions at board meetings and committee meetings were carried out unanimously as recorded in the minutes of the meetings of the board of directors or committees of the board, as the case may be.

**I further report that** there are adequate systems and processes in the company commensurate with the size and operations of the company to monitor and ensure compliance with applicable laws, rules, regulations and guidelines.

**I further report that** during the Audit Period the company has no specific events/actions having a major bearing on the company's affairs in pursuance of the above-referred laws, rules, regulations, guidelines and standards, etc.

**Dr. K R Chandratre**  
FCS No.: 1370  
C P No.: 5144

Place : Pune  
Date : 22 May 2018

## ANNEXURE-V

## ANNUAL REPORT ON CORPORATE SOCIAL RESPONSIBILITY (CSR)

- A brief outline of the company's CSR policy, including overview of projects or programs proposed to be undertaken and a reference to the web-link to the CSR policy and projects or programs: The board has approved the CSR policy of the company. It can be viewed at [www.drreddys.com/media/125014/csr-policy.html](http://www.drreddys.com/media/125014/csr-policy.html)
- The composition of the CSR committee: The CSR committee was constituted by the board of directors at its meeting held on 31 October 2013. As on date, the committee comprises of Mr. Bharat N Doshi (independent director) as chairman, Mr. G V Prasad and Mr. K Satish Reddy.
- Average net profit of the company for last three financial years: ₹ 16,396,182,213/-
- Prescribed CSR expenditure (two percent of the amount as in item no.3 above): ₹ 327,923,644/-
- Details of CSR spent during the financial year:
  - Total amount to be spent for the financial year: ₹ 328,116,555/-
  - Amount unspent, if any: NA
  - Manner in which the amount spent during FY2018 is detailed below:

(A) (B)		(C)	(D)	(E)	(F)		(G)	(H)
SL. NO	CSR PROJECT OR ACTIVITIES IDENTIFIED	SECTOR IN WHICH THE PROJECT IS COVERED	PROJECTS OR PROGRAMS (1) LOCAL AREA OR OTHER (2) SPECIFY THE STATE & DISTRICTS WHERE PROJECTS OR PROGRAMS WAS UNDERTAKEN	AMOUNT OUTLAY (BUDGET) PROJECT OR PROGRAM WISE FOR THE FY2018	AMOUNT SPENT ON THE PROJECTS OR PROGRAMS		CUMULATIVE EXPENDITURE UPTO THE REPORTING PERIOD	AMOUNT SPENT: DIRECT OR THROUGH IMPLEMENTING AGENCY
					(1) DIRECT EXPENDITURE ON PROJECTS*	(2) OVERHEADS*		
1	DRF education programs	Education	In & around Hyderabad	34,500,000	34,500,000		34,500,000	Dr. Reddy's Foundation
2	Supporting and subsidizing quality education in low income schools	Education	In & around Hyderabad	35,020,000	35,020,000		35,020,000	Pudami Education Society
3	Quality education program in Government schools - SIP	Education	In vicinity of plant locations	43,524,000	43,524,000		43,524,000	Dr. Reddy's Foundation
4	Enabling higher education in liberal arts	Education	In Gurgaon, Haryana	50,000,000	50,000,000		50,000,000	International Foundation for Research and Education
5	Quality education in science	Education	In Andhra Pradesh	1,644,562	-		-	Agastya International Foundation
6	Chair in chemical science	Education	-	5,000,000	5,000,000		5,000,000	University of Hyderabad
7	Capacity building of social sector professionals	Education	In & around Hyderabad	1,000,000	840,000		840,000	Centre for Social Initiative and Management - Hyderabad
8	Livelihood programs for youth & people with disability programs	Livelihood enhancement projects	Across India	120,000,000	120,000,000		120,000,000	Dr. Reddy's Foundation
9	Livelihood project	Livelihood enhancement projects	Across India	6,800,000	4,838,023		4,838,023	Dr. Reddy's Foundation
10	Employment enhancing vocation skills and livelihood enhancement projects	Livelihood enhancement projects	In vicinity of plant locations	3,000,000	447,804		447,804	Direct
11	Farmer field school project	Livelihood enhancement projects	In Andhra Pradesh	11,300,000	10,588,502		10,588,502	Naandi Foundation
12	Psychological health support	Health care	In & around Hyderabad	1,220,000	1,220,000		1,220,000	Roshni Trust
13	Community health intervention program in maternal and child health	Health care	In vicinity of plant locations	15,000,000	14,914,050		14,914,050	NICE Foundation
14	Rural development and infrastructure around units	Rural development projects	In vicinity of plant locations	4,410,000	2,032,637		2,032,637	Direct
15	Rural development initiatives	Rural development projects	-	3,000,000	497,000		497,000	Implementing agencies like Youngistan Foundation, Mitr Foundation, Unlearning Foundation
16	Program management cost	Capacity building		9,500,000	4,694,539		4,694,539	NA
<b>Grand total</b>				<b>344,918,562</b>	<b>328,116,555</b>		<b>328,116,555</b>	

\* For FY2018, the data on overheads is not separately accounted.

6. In case the company has failed to spend the two per cent of the average net profit of the last three financial years or any part thereof, the company shall provide the reasons for not spending the amount in its board report: **NA**
7. A responsibility statement of the CSR committee that the implementation and monitoring of CSR policy, is in compliance with CSR objectives and policy of the company: **The implementation and monitoring of CSR policy is in compliance with the CSR objectives and policy of the company.**

**G V Prasad**  
Co-Chairman & CEO

**Bharat N Doshi**  
Chairman, CSR committee

## ANNEXURE-VI

### Information in terms of section 197(12) of the Companies Act, 2013 read with rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014

- (i) The ratio of the remuneration of each director to the median remuneration of the employees of the company and the percentage increase in remuneration of each director, CEO, CFO and CS for FY2018:

NAME	DESIGNATION	RATIO OF REMUNERATION OF EACH DIRECTOR TO THE MEDIAN REMUNERATION OF EMPLOYEES	% INCREASE/(DECREASE) IN REMUNERATION DURING FY2018
Mr. K Satish Reddy <sup>(1)</sup>	Chairman	132	(21)
Mr. G V Prasad <sup>(1)</sup>	Co-Chairman, managing director and CEO	179	(21)
Dr. Omkar Goswami	Independent director	16	(17)
Mr. Anupam Puri	Independent director	20	(9)
Mr. Bharat N Doshi	Independent director	20	(11)
Ms. Kalpana Morparia	Independent director	17	(19)
Dr. Bruce L A Carter	Independent director	18	(12)
Dr. Ashok S Ganguly <sup>(2)</sup>	Independent director	7	(64)
Mr. Sridar Iyengar	Independent director	18	(12)
Mr. Hans Peter Hasler	Independent director	16	4
Mr. Prasad R Menon <sup>(3)</sup>	Independent director	8	NA
Mr. Saumen Chakraborty <sup>(4)(5)</sup>	Chief financial officer (CFO)	NA	77
Mr. Sandeep Poddar <sup>(4)</sup>	Company secretary (CS)	NA	3

<sup>(1)</sup> Includes commission, salary and perquisites. They do not receive any amount as remuneration from any subsidiary company.

<sup>(2)</sup> Remuneration for part of the year, the term as an independent director ended on 28 July 2017.

<sup>(3)</sup> Appointed as an independent director with effect from 30 October 2017.

<sup>(4)</sup> Includes fixed pay, actual variable pay, fuel & maintenance on actuals and does not include value of stock options.

<sup>(5)</sup> Includes long-term incentive, payable once in four years.

- (ii) The median remuneration of employees increased by 3.6% in FY2018.
- (iii) The number of permanent employees on the rolls of the company as on 31 March 2018 is 23,524.
- (iv) Average percentage increase in the salaries of employees other than KMPs for FY2018 was 8.1% as compared to FY2017. There was a decrease of 1% in the total remuneration of KMPs for the same period.
- (v) It is hereby affirmed that the remuneration paid during FY2018 is as per the remuneration policy of the company.

**K Satish Reddy**  
Chairman

## ANNEXURE-VII

**CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO****(A) CONSERVATION OF ENERGY**

During the year, the company has implemented energy conservation projects across its various business units and accrued savings of approximately ₹ 154 million.

Major categories of energy projects are:

- 1. Installation of innovative technology:** Horizontal deployment of phase-II replacement of conventional motor blower technology with electronically commuted (EC) motors technology in heat, ventilation and air conditioning (HVAC) systems across FTO sites. Phase-II horizontal deployment of automatic tube cleaning system in refrigeration chillers, phase-II zero purge loss air dryers/HOC drier for compressed air. Extended installation of brine chiller replacing additional number of dehumidifiers from operation. Horizontal deployment of idea of emulsification of furnace oil to reduce the consumption in boilers. Power management system for synchronization of DG sets and load sharing extended for Vizag units. Replacement of existing IE1 standard motors with energy efficient IE3 standard motors with servo voltage transformers for lighting loads to have energy efficient lighting system, use of LED lights. Installation of occupancy sensors to control lighting operation. Non-chemical water treatment technology for cooling tower water. FTO 3 installed 4300 CFM centrifugal air compressor to have efficient compressed air generating station.
- 2. Optimization of designs and operational efficiencies:** Optimization of compressed air pressure and integration of piping of compressors and integration of chillers. Arresting the air leakages & reduction of the unloading hours of air compressor units. Replaced existing pumps with energy efficient pumps, Replaced existing chillers with energy efficient chillers, electric heaters by steam coils for AHUs and compressors to enhance energy efficiency. Optimization of HVAC usage by shut down/sleep mode operations based on working areas of plant. Installed VFD for AHU to minimize power losses, installed capacitor to maintain power factor closed to unity, optimization of chilled water temperature based on environmental temperature changes. Minimized steam usage by improving heat pump efficiency, effectively reduced FO consumption by improving hot condensate recovery, integrated chiller and DG cooling tower to have better power saving. Integrated compressor system to perform variable load demand. Optimization of RH % when no production activity. Optimization of hot HVAC hot water generation as per environmental changes. Enhancing the efficiencies of refrigerant compressors by adopting artic master and ECO plug technology. Boiler efficiency improvement by automation, better condensate recovery. Consolidation & optimized utilization of chilled water/brine/air/ nitrogen compressors based on load for CTO sites.
- 3. Identifying cheaper power sources and optimization of resources:** Effective use of IEX power, 22 MW solar units new agreement signed and power purchase from alternate solar power suppliers for our plants. 15 MW solar power plant under JV structure have been commissioned and synchronized with grid for supply of power at FTO 2, FTO 3, CTOs 1, 2, 3, 4 and 5 at cheaper rates. 400 KW capacity roof top solar modules have been installed at FTO 6 and in use.

**(B) TECHNOLOGY ABSORPTION**

i. Efforts made towards technology absorption	The company has a full-fledged R&D division continuously engaged in research on new products and process improvement on existing products as part of continuous improvement. As a part of technology absorption and adoption, once technology is developed for a product, it is tested in a pilot plant and thereafter commercial production is performed. Innovation is embarked by an incremental approach towards cost, time, quality and complex product development by adopting cutting edge technology and our philosophy is to continuously upgrade the technology.
ii. Benefits derived like product improvement, cost reduction, product development or import substitution.	Successful development of complex generics products accomplished through innovation and science. Improved quality by adopting quality by design concept. Technology adoption yielded improvement in robustness and cost.
iii. In case of imported technology (imported during the last three years reckoned from the beginning of the financial year) - a) Details of technology imported b) Year of import c) Whether the technology been fully absorbed d) If not fully absorbed, areas where absorption has not taken place, and the reasons therefore.	No imported technology
iv. Expenditure incurred on R&D	
a) Capital (₹ million)	FY2018
b) Recurring (₹ million)*	FY2017
c) Total (₹ million)	FY2018
<b>Total R&amp;D expenditure as a percentage of total turnover</b>	<b>15.43%</b>
	<b>15.18%</b>

\* Excluding depreciation and amortization

**(C) FOREIGN EXCHANGE EARNINGS AND OUTGO**

Foreign exchange earned in terms of actual inflows and foreign exchange outgo in terms of actual outflows during the year:

PARTICULARS	(₹ MILLIONS)
Foreign exchange earned in terms of actual inflows	72,623
Foreign exchange outgo in terms of actual outflows	18,916

**K Satish Reddy**  
Chairman

## ANNEXURE-VIII

## FORM NO. MGT-9

## EXTRACT OF ANNUAL RETURN

as on the financial year ended on 31 March 2018

(Pursuant to section 92(3) of the Companies Act, 2013 and rule 12(1) of the Companies (Management and Administration) Rules, 2014)

## I REGISTRATION AND OTHER DETAILS:

SL. NO.	PARTICULARS	DETAILS
i)	CIN	L85195TG1984PLC004507
ii)	Registration date	24 February 1984
iii)	Name of the company	Dr. Reddy's Laboratories Limited
iv)	Category/sub-category of the company	Public company/limited by shares
v)	Address of the registered office and contact details	8-2-337, Road No. 3, Banjara Hills, Hyderabad - 500 034 Tel: +91-40-4900 2900 Fax: +91-40-4900 2999 E-mail ID: shares@drreddys.com
vi)	Whether listed company Yes/No	Yes
vii)	Name, address and contact details of registrar and transfer agent, if any	Bigshare Services Private Limited 306, Right wing, 3rd floor, Amrutha Ville, Opp. Yashoda Hospital, Rajbhavan Road, Hyderabad - 500 082 Tel: +91-40-2337 4967 Fax: +91-40-2337 0295 E-mail ID: bsshyd@bigshareonline.com

## II. PRINCIPAL BUSINESS ACTIVITIES OF THE COMPANY

All the business activities contributing 10% or more of the total turnover of the company are given below:

SL. NO.	NAME AND DESCRIPTION OF MAIN PRODUCTS/SERVICES	NIC CODE OF THE PRODUCT/SERVICE	% TO TOTAL TURNOVER OF THE COMPANY
1	Pharmaceuticals	210	100%

## III. PARTICULARS OF HOLDING, SUBSIDIARY AND ASSOCIATE COMPANIES

SL. NO.	NAME OF THE COMPANY	ADDRESS OF THE COMPANY	CIN/GLN	HOLDING/SUBSIDIARY/ASSOCIATE	% OF SHARES HELD*	APPLICABLE SECTION
1	Dr. Reddy's New Zealand Limited	82, Totara Crescent, Woburn, Lower Hutt, 5011, New Zealand	NA	Subsidiary	100	2(87)(ii)
2	Dr. Reddy's Laboratories (Australia) Pty. Limited	Level 9, 492, St. Kilda Road, Melbourne, Victoria, Australia	NA	Subsidiary	100	2(87)(ii)
3	Dr. Reddy's Laboratories (Proprietary) Limited	The Place, 1 Sandton Drive, Sandton 2196, South Africa	NA	Subsidiary	100	2(87)(ii)
4	Dr. Reddy's Venezuela, C.A.	Av. Orinoco, Edf. Centro Empresarial Premium, Piso 3, Urb Las Mercedes Caracas, Venezuela	NA	Subsidiary	100	2(87)(ii)
5	Dr. Reddy's Laboratories, Inc.	107 College Road East, Princeton, New Jersey, 08540, USA	NA	Subsidiary	100	2(87)(ii)
6	Promius Pharma, LLC	107 College Road East, Princeton, New Jersey, 08540, USA	NA	Subsidiary	100	2(87)(ii)
7	Dr. Reddy's Laboratories Louisiana, LLC	8800 Line Avenue, Shreveport, LA 71106-6717, USA	NA	Subsidiary	100	2(87)(ii)
8	Dr. Reddy's Laboratories Tennessee, LLC	201 Industrial Drive, Bristol, TN 37620-5413, USA	NA	Subsidiary	100	2(87)(ii)
9	Reddy Pharma Italia S.R.L.	Milan, via Piazza Santa Maria Beltrade 1, Italy	NA	Subsidiary	100	2(87)(ii)
10	Dr. Reddy's S.R.L.	Milan, via Piazza Santa Maria Beltrade 1, Italy	NA	Subsidiary	100	2(87)(ii)
11	Reddy Pharma Iberia S.A.U.	Avenida Josep Tarradellas, n°38 - 08029, Barcelona, Spain	NA	Subsidiary	100	2(87)(ii)
12	Dr. Reddy's Farmaceutica Do Brasil Ltda.	AV. Guido Caloi, 1895 - JD. Sao Luis - Sao Paulo, Brazil	NA	Subsidiary	100	2(87)(ii)

## III. PARTICULARS OF HOLDING, SUBSIDIARY AND ASSOCIATE COMPANIES (CONTINUED)

SL. NO.	NAME OF THE COMPANY	ADDRESS OF THE COMPANY	CIN/GLN	HOLDING/ SUBSIDIARY/ ASSOCIATE	% OF SHARES HELD*	APPLICABLE SECTION
13	Dr. Reddy's Laboratories (UK) Limited	Unit 6 Riverview Road, Beverly, East Yorkshire, HU17 Old, UK	NA	Subsidiary	100	2(87)(ii)
14	Dr. Reddy's Laboratories (EU) Limited	Unit 6 Riverview Road, Beverly, East Yorkshire, HU17 Old, UK	NA	Subsidiary	100	2(87)(ii)
15	Chirotech Technology Limited	Chirotech Technology Centre, 410 Cambridge Science Park, Milton Road, Cambridge UK	NA	Subsidiary	100	2(87)(ii)
16	Kunshan Rotam Reddy Pharmaceutical Co. Limited	258, Huang Pu Jiang Zhong Lu, Kunshan, Jiangsu, P.R. China - 215300	NA	Subsidiary	51.33	2(87)(ii)
17	OOO Dr. Reddy's Laboratories Limited	20, Ovchinnikovskaya Emb, Moscow, Russia	NA	Subsidiary	100	2(87)(ii)
18	Dr. Reddy's Laboratories Romania S.R.L.	71, Nicolae Caramfil, Floor 5, Space 10, 014142 Bucharest 1, Romania	NA	Subsidiary	100	2(87)(ii)
19	Reddy Holding GmbH	Kobelweg-95, 86156 Augsburg, Germany	NA	Subsidiary	100	2(87)(ii)
20	beta Institut gemeinnützige GmbH	Kobelweg-95, 86156 Augsburg, Germany	NA	Subsidiary	100	2(87)(ii)
21	betapharm Arzneimittel GmbH	Kobelweg-95, 86156 Augsburg, Germany	NA	Subsidiary	100	2(87)(ii)
22	Lacock Holdings Limited	10, Diomidious Street, Alphamega Akropolis Bldg, 3rd floor, Office 401, 2024 Nicosia, Cyprus	NA	Subsidiary	100	2(87)(ii)
23	Reddy Netherlands B.V.	Prins Bernhardplein 200, 1097 JB Amsterdam, Netherlands	NA	Subsidiary	100	2(87)(ii)
24	Reddy Antilles N.V.	Landhuis Joonchi Kaya Richard Beajon z/n., Curacao	NA	Subsidiary	100	2(87)(ii)
25	Dr. Reddy's Laboratories SA	Elisabethenanlage 11, CH-4051, Basel, Switzerland	NA	Subsidiary	100	2(87)(ii)
26	Dr. Reddy's Laboratories International SA	Elisabethenanlage 11, CH-4051, Basel, Switzerland	NA	Subsidiary	100	2(87)(ii)
27	Industrias Químicas Falcon de Mexico, S.A.	Carr. Federal Cuernavaca - Cuautla Km. 4.5, Civac, Jiutepec, Mor, Mexico 62578	NA	Subsidiary	100	2(87)(ii)
28	Aurigene Discovery Technologies (Malaysia) Sdn. Bhd.	Wisma, Adiss Udarmana Complex, 1-3A Jalan, 1/64A, Kuala Lumpur 50530, Malaysia	NA	Subsidiary	100	2(87)(ii)
29	Dr. Reddy's Laboratories New York, Inc.	1974, State Route, 145 Middleburgh, NY 12122, USA	NA	Subsidiary	100	2(87)(ii)
30	Dr. Reddy's Laboratories LLC	121A, Lenin str., v. Velika, Oleksandrivka, Borispil region, Kyiv oblast, Ukraine	NA	Subsidiary	100	2(87)(ii)
31	Dr. Reddy's Research and Development B.V.	Zernikedreef 12, 23333 CL Leiden, The Netherlands	NA	Subsidiary	100	2(87)(ii)
32	Dr. Reddy's Laboratories Canada Inc.	2425, Matheson Blvd E, 7th Floor, Mississauga, ON L4W 5K4, Canada	NA	Subsidiary	100	2(87)(ii)
33	Dr. Reddys Singapore Pte. Limited	16, Raffles Quay # 33-03 Hong Leong Bldg, Singapore - 048581	NA	Subsidiary	100	2(87)(ii)
34	Dr. Reddy's Laboratories S.A.S.	Avenida Carrera 9, No. 113-52, Edificio Torres Unidas 2, Bagota D.C., Colombia	NA	Subsidiary	100	2(87)(ii)
35	Aurigene Discovery Technologies, Inc.	107, College Road East, Princeton, New Jersey - 08540, USA	NA	Subsidiary	100	2(87)(ii)
36	Eurobridge Consulting B.V.	Prins Bernhardplein 200, 1097 JB Amsterdam, The Netherlands	NA	Subsidiary	100	2(87)(ii)
37	OOO DRS LLC	20, Ovchinnikovskaya Emb, Moscow, Russia	NA	Subsidiary	100	2(87)(ii)
38	Dr. Reddy's Laboratories Japan KK	Kabutoch, 1st Heiwa Building, 3F, 5-1 Nihonbashi Kabutocho, Chuo-Ku, Tokyo 103-0026, Japan	NA	Subsidiary	100	2(87)(ii)
39	Reddy Pharma S.A.S.	Avenue Edouard Belin 9, 92500 Rueil-Malmaison, France	NA	Subsidiary	100	2(87)(ii)

## III. PARTICULARS OF HOLDING, SUBSIDIARY AND ASSOCIATE COMPANIES (CONTINUED)

SL. NO.	NAME OF THE COMPANY	ADDRESS OF THE COMPANY	CIN/GLN	HOLDING/SUBSIDIARY/ASSOCIATE	% OF SHARES HELD*	APPLICABLE SECTION
40	Dr. Reddy's Laboratories Kazakhstan LLP	Business Centre Alatau Grand, Office No. 905, Street Timiryazeva 28B, Almaty, 050040, Kazakhstan	NA	Subsidiary	100	2(87)(ii)
41	Dr. Reddy's (WUXI) Pharmaceutical Co. Limited (incorporated on 2 June 2017)	E2-518, No. 200 Linghu Revenue, Xinwu District, Wuxi, Jiangsu, China	NA	Subsidiary	100	2(87)(ii)
42	Dr. Reddy's Laboratories Chile SPA (incorporated on 16 June 2017)	Roger de Flor, N 2736, 6th Floor, Las Condes County, Chile	NA	Subsidiary	100	2(87)(ii)
43	Dr. Reddy's Laboratories Malaysia Sdn. Bhd. (incorporated on 10 July 2017)	10th Floor, Menara Hap Seng No. 1 and 3, Jalan P Ramlee, 50250, Kuala Lumpur, W P, Malaysia	NA	Subsidiary	100	2(87)(ii)
44	Dr. Reddy's Laboratories Taiwan Limited (incorporated on 23 February 2018)	(110) 57F-1, No. 7, Sec. 5, Xinyi Road, Xinyi Dist., Taipei, Taiwan	NA	Subsidiary	100	2(87)(ii)
45	Aurigene Discovery Technologies Limited	39-40, KIADB Industrial Area, Electronic City Phase II, Bengaluru - 560 100, Karnataka, India	U24239KA2001PLC029391	Subsidiary	100	2(87)(ii)
46	DRL Impex Limited	7-1-27, Ameerpet, Hyderabad - 500 016, Telangana, India	U65990TG1986PLC006695	Subsidiary	100	2(87)(ii)
47	Dr. Reddy's Bio-Sciences Limited	7-1-27, Ameerpet, Hyderabad - 500 016, Telangana, India	U72200TG2000PLC034765	Subsidiary	100	2(87)(ii)
48	Idea2Enterprises (India) Private Limited	7-1-27, Ameerpet, Hyderabad - 500 016, Telangana, India	U72200TG2000PTC034473	Subsidiary	100	2(87)(ii)
49	Cheminor Investments Limited	7-1-27, Ameerpet, Hyderabad - 500 016, Telangana, India	U67120TG1990PLC010931	Subsidiary	100	2(87)(ii)
50	Regkinetics Services Limited (Formerly known as Dr. Reddy's Pharma SEZ Limited)	7-1-27, Ameerpet, Hyderabad - 500 016, Telangana, India	U24233TG2009PLC064271	Subsidiary	100	2(87)(ii)
51	Imperial Credit Private Limited	2nd Floor, BA-38, Sector - 1, Salt Lake, Kolkata, West Bengal - 700 064, India	U06519WB1991PTC052604	Subsidiary	100	2(87)(ii)
52	DRES Energy Private Limited	No. 55, Solar Tower, 6th Main, 11th Cross, Lakshmaiah Block, Ganganagar, Bengaluru - 560 024 Karnataka, India	U40104KA2015PTC083148	Joint Venture	26	2(6)
53	DRANU, LLC	C/o. Emerging Enterprise Centre, 1000 Winter Street, Suite 4000, Waltham, MA 02451, USA	NA	Joint Venture	50	2(6)

\* Represents aggregate % of shares held by the company and/or its subsidiaries.

## IV. SHAREHOLDING PATTERN (equity share capital breakup as a percentage of total equity)

## i) Category-wise shareholding

CATEGORY OF SHAREHOLDERS	NO. OF SHARES HELD AT THE BEGINNING OF THE YEAR				NO. OF SHARES HELD AT THE END OF THE YEAR				%CHANGE DURING THE YEAR
	DEMAT	PHYSICAL	TOTAL	% OF TOTAL SHARES	DEMAT	PHYSICAL	TOTAL	% OF TOTAL SHARES	
<b>A. PROMOTERS</b>									
(1) Indian									
a) Individual/HUF	3,771,828	-	3,771,828	2.28	3,315,328	-	3,315,328	2.00	(0.28)
b) Central Govt.	-	-	-	-	-	-	-	-	-
c) State Govt(s).	-	-	-	-	-	-	-	-	-
d) Bodies corp.	40,627,000	-	40,627,000	24.51	41,083,500	-	41,083,500	24.76	0.25
e) Banks/FI	-	-	-	-	-	-	-	-	-
f) Any other	-	-	-	-	-	-	-	-	-
<b>Sub-total (A)(1)</b>	<b>44,398,828</b>	<b>-</b>	<b>44,398,828</b>	<b>26.79</b>	<b>44,398,828</b>	<b>-</b>	<b>44,398,828</b>	<b>26.76</b>	<b>(0.03)</b>
(2) Foreign									
a) NRIs - individuals	-	-	-	-	-	-	-	-	-
b) Other - individuals	-	-	-	-	-	-	-	-	-
c) Bodies corp.	-	-	-	-	-	-	-	-	-
d) Banks/FI	-	-	-	-	-	-	-	-	-
e) Any other	-	-	-	-	-	-	-	-	-
<b>Sub-total (A)(2)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total shareholding of promoters (A)=(A)(1)+(A)(2)</b>	<b>44,398,828</b>	<b>-</b>	<b>44,398,828</b>	<b>26.79</b>	<b>44,398,828</b>	<b>-</b>	<b>44,398,828</b>	<b>26.76</b>	<b>(0.03)</b>
<b>B. PUBLIC SHAREHOLDING</b>									
(1) Institutions									
a) Mutual funds/UTI	7,925,274	2,490	7,927,764	4.79	14,765,047	2,890	14,767,937	8.90	4.11
b) Banks/FI	462,994	3,986	466,980	0.28	380,679	3,586	384,265	0.23	(0.05)
c) Central Govt.	-	-	-	-	-	-	-	-	-
d) State Govt(s).	-	-	-	-	-	-	-	-	-
e) Venture capital funds	-	-	-	-	-	-	-	-	-
f) Insurance companies	9,101,365	400	9,101,765	5.49	9,294,096	400	9,294,496	5.60	0.11
g) FIs/FPIs	53,683,200	11,000	53,694,200	32.40	50,178,829	11,000	50,189,829	30.25	(2.15)
h) Foreign venture capital funds	-	-	-	-	-	-	-	-	-
i) Others - Alternate investment funds	-	-	-	-	113,600	-	113,600	0.07	0.07
<b>Sub-total (B)(1)</b>	<b>71,172,833</b>	<b>17,876</b>	<b>71,190,709</b>	<b>42.96</b>	<b>74,732,251</b>	<b>17,876</b>	<b>74,750,127</b>	<b>45.05</b>	<b>2.09</b>
(2) Non-Institutions									
a) Bodies corp.									
i) Indian	5,056,734	19,576	5,076,310	3.06	6,162,951	9,176	6,172,127	3.72	0.66
ii) Overseas	-	-	-	-	-	-	-	-	-
b) Individuals									
i) Individual shareholders holding nominal share capital upto ₹ 1 lakh	12,109,108	1,017,249	13,126,357	7.92	12,751,432	900,324	13,651,756	8.23	0.31
ii) Individual shareholders holding nominal share capital in excess of ₹ 1 lakh	674,293	26,890	701,183	0.42	796,104	26,890	822,994	0.49	0.07
c) Others (specify)									
i) Trust	1,030,600	-	1,030,600	0.62	1,502,271	-	1,502,271	0.91	0.29
ii) Clearing member	599,465	-	599,465	0.36	172,014	-	172,014	0.10	(0.26)
iii) NRIs	1,614,887	283,678	1,898,565	1.15	1,568,212	251,742	1,819,954	1.10	(0.05)
iv) Foreign nationals	13,949	-	13,949	0.01	11,040	-	11,040	0.01	-
v) Unclaimed suspense escrow account	533,803	-	533,803	0.32	417,932	-	417,932	0.25	(0.07)
vi) IEPF	-	-	-	-	115,262	-	115,262	0.07	0.07
<b>Sub-total (B)(2)</b>	<b>21,632,839</b>	<b>1,347,393</b>	<b>22,980,232</b>	<b>13.86</b>	<b>23,497,218</b>	<b>1,188,132</b>	<b>24,685,350</b>	<b>14.88</b>	<b>1.02</b>
<b>Total Public Shareholding (B)=(B)(1)+ (B)(2)</b>	<b>92,805,672</b>	<b>1,365,269</b>	<b>94,170,941</b>	<b>56.82</b>	<b>98,229,469</b>	<b>1,206,008</b>	<b>99,435,477</b>	<b>59.94</b>	<b>3.11</b>
<b>C. SHARES HELD BY CUSTODIAN FOR ADRS</b>	<b>27,171,944</b>	<b>-</b>	<b>27,171,944</b>	<b>16.39</b>	<b>22,076,602</b>	<b>-</b>	<b>22,076,602</b>	<b>13.31</b>	<b>(3.08)</b>
<b>Grand total (A+B+C)</b>	<b>164,376,444</b>	<b>1,365,269</b>	<b>165,741,713</b>	<b>100.00</b>	<b>164,704,899</b>	<b>1,206,008</b>	<b>165,910,907</b>	<b>100.00</b>	<b>-</b>



## ii) Shareholding of promoters

SL. NO.	NAME	NO. OF SHARES HELD AT THE BEGINNING OF THE YEAR			NO. OF SHARES HELD AT THE END OF THE YEAR			% CHANGE DURING THE YEAR
		NO. OF SHARES	% OF TOTAL SHARES OF THE COMPANY	% OF SHARES PLEDGED/ ENCUMBERED TO TOTAL SHARES*	NO. OF SHARES	% OF TOTAL SHARES OF THE COMPANY	% OF SHARES PLEDGED/ ENCUMBERED TO TOTAL SHARES*	
1	Dr. Reddy's Holdings Limited	40,627,000	24.51	-	41,083,500	24.76	-	0.25
2	Mr. K Satish Reddy	1,310,332	0.79	0.45	1,019,332	0.61	-	(0.18)
3	Mrs. K Samrajyam	1,115,360	0.67	-	1,115,360	0.67	-	-
4	Mr. G V Prasad	1,344,640	0.81	0.38	1,179,140	0.71	0.19	(0.10)
5	Mrs. G Anuradha	1,496	0.00	-	1,496	0.00	-	-
6	Mrs. K Deepti Reddy	0	0	-	0	0	-	-
7	APS Trust	0	0	-	0	0	-	-
8	VSD Holdings & Advisory LLP	0	0	-	0	0	-	-
9	K Satish Reddy (HUF)	0	0	-	0	0	-	-
10	Ms. G Vani Sanjana Reddy	0	0	-	0	0	-	-
11	Ms. G Mallika Reddy	0	0	-	0	0	-	-
12	G V Prasad (HUF)	0	0	-	0	0	-	-
13	Mr. G Sharathchandra Reddy	0	0	-	0	0	-	-
14	Ms. K Shravya Reddy	0	0	-	0	0	-	-
15	Mr. K Vishal Reddy	0	0	-	0	0	-	-
	<b>Total</b>	<b>44,398,828</b>	<b>26.79</b>	<b>0.83</b>	<b>44,398,828</b>	<b>26.76</b>	<b>0.19</b>	<b>(0.03)</b>

\* The term 'encumbrance' has the same meaning as assigned to it in regulation 28(3) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011. Shareholders listed under Sl. No. 1 to 15 are disclosed as promoters' under regulation 30(2) of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 as on 31 March 2018. During the year, Mr. K Satish Reddy and Mr. G V Prasad released (removed) the pledge of 746,000 equity shares and 622,080 equity shares, respectively. Mr. G V Prasad pledged 318,100 equity shares on 27 September 2018.

## iii) Change in promoters' shareholding

PARTICULARS	SHAREHOLDING AT THE BEGINNING OF THE YEAR		CUMULATIVE SHAREHOLDING DURING THE YEAR	
	NO. OF SHARES	% OF TOTAL SHARES OF THE COMPANY	NO. OF SHARES	% OF TOTAL SHARES OF THE COMPANY
At the beginning of the year	44,398,828	26.79		
Date wise increase/decrease in promoters' shareholding during the year specifying the reasons for increase/decrease (e.g. allotment/transfer/bonus/sweat equity etc.)#	-	-	44,398,828	26.76*
<b>At the end of the year</b>	<b>44,398,828</b>	<b>26.76</b>		

\* During the year, the company has allotted 169,194 shares through exercise of stock options. This increased the number of outstanding equity shares and thereby reduced the percentages of promoters shareholding by ~0.03%.

# Details of inter se transfer within promoters during the year:

SL. NO.	NAME	SHAREHOLDING		DATE	INCREASE/ (DECREASE) IN SHARE-HOLDING	REASON	CUMULATIVE SHAREHOLDING DURING THE YEAR	
		NO. OF SHARES AT THE BEGINNING OF THE YEAR	% OF TOTAL SHARES OF THE COMPANY				NO. OF SHARES	% OF TOTAL SHARES OF THE COMPANY
1	Dr. Reddy's Holdings Limited	40,627,000	24.51	01-04-2017				
				21-08-2017	406,500	Inter se purchase	41,033,500	24.75
				04-10-2017	50,000	Inter se purchase	41,083,500	24.78
				31-03-2018			41,083,500	24.76
2	Mr. K Satish Reddy Chairman	1,310,332	0.79	01-04-2017				
				21-08-2017	(266,000)	Inter se sale	1,044,332	0.63
				04-10-2017	(25,000)	Inter se sale	1,019,332	0.61
				31-03-2018			1,019,332	0.61
3	Mr. G V Prasad Co-Chairman, managing director & CEO	1,344,640	0.81	01-04-2017				
				21-08-2017	(140,500)	Inter se sale	1,204,140	0.72
				04-10-2017	(25,000)	Inter se sale	1,179,140	0.71
				31-03-2018			1,179,140	0.71

## iv) Shareholding pattern of top ten shareholders (other than directors, promoters and holders of GDRs and ADRs)

SL. NO.	NAME	SHAREHOLDING AT THE BEGINNING OF THE YEAR		SHAREHOLDING AT THE END OF THE YEAR	
		NO. OF SHARES	% OF TOTAL SHARES OF THE COMPANY	NO. OF SHARES	% OF TOTAL SHARES OF THE COMPANY
1	First State Investments ICVC - Stewart Investors Asia Pacific Leaders Fund	5,377,008	3.24	5,377,008	3.24
2	Oppenheimer Developing Markets Fund	5,286,227	3.19	5,286,227	3.19
3	Life Insurance Corporation of India	4,132,738	2.49	4,132,738	2.49
4	Franklin Templeton Investment Funds	2,184,775	1.32	4,831,949	2.91
5	Government of Singapore	2,076,004	1.25	14,39,443	0.87
6	Teluk Kemang Investments (Mauritius) Limited	2,015,592	1.22	2,015,592	1.21
7	First State Investments ICVC - Stewart Investors Global Emerging Markets Leaders Fund	1,947,863	1.18	1,947,863	1.17
8	Life Insurance Corporation of India P & GS Fund	1,682,747	1.02	1,682,747	1.01
9	ICICI Prudential Life Insurance Company Limited	1,672,159	1.01	1,441,803	0.87
10	ISHARES India Index Mauritius Company	1,383,306	0.83	1,327,083	0.80

## v) Shareholding of directors and key managerial personnel

SL. NO.	NAME	DATE	SHAREHOLDING AT THE BEGINNING OF THE YEAR		INCREASE/ (DECREASE) IN SHARE-HOLDING, IF ANY	REASON	CUMULATIVE SHAREHOLDING DURING THE YEAR	
			NO. OF SHARES	% OF TOTAL SHARES OF THE COMPANY			NO. OF SHARES	% OF TOTAL SHARES OF THE COMPANY
<b>A.</b>	<b>Directors</b>							
1	Mr. K Satish Reddy Chairman	01-04-2017	1,310,332	0.79				
		21-08-2017			(266,000)	Inter se sale	1,044,332	0.63
		04-10-2017			(25,000)	Inter se sale	1,019,332	0.61
		31-03-2018	1,019,332	0.61			1,019,332	0.61
2	Mr. G V Prasad Co-Chairman, managing director & CEO	01-04-2017	1,344,640	0.81				
		21-08-2017			(140,500)	Inter se sale	1,204,140	0.72
		04-10-2017			(25,000)	Inter se sale	1,179,140	0.71
		31-03-2018	1,179,140	0.71				
3	Dr. Omkar Goswami Independent director	01-04-2017	22,800	0.01				
		31-03-2018	22,800	0.01			22,800	0.01
4	Mr. Hans Peter Hasler Independent director	01-04-2017	0	0.00				
		31-03-2018	0	0.00			0	0.00
5	Ms. Kalpana Morparia Independent director	01-04-2017	10,800	0.01				
		31-03-2018	10,800	0.01			10,800	0.01
6	Mr. Prasad R Menon# Independent director	30-10-2017	0	0.00				
		31-03-2018	0	0.00			0	0.00
7	Mr. Sridar Iyengar Independent director	01-04-2017	0	0.00				
		31-03-2018	0	0.00			0	0.00
8	Dr. Bruce L A Carter* Independent director	01-04-2017	7,800	0.00				
		31-03-2018	7,800	0.00			7,800	0.00
9	Mr. Anupam Puri* Independent director	01-04-2017	13,500	0.01				
		31-03-2018	13,500	0.01			13,500	0.01
10	Mr. Bharat N Doshi Independent director	01-04-2017	1,000	0.00				
		31-03-2018	1,000	0.00			1,000	0.00
11	Dr. Ashok S Ganguly** Independent director	01-04-2017	4,800	0.00				
		28-07-2017	4,800	0.00			4,800	0.00

## v) Shareholding of directors and key managerial personnel (continued)

SL. NO.	NAME	DATE	SHAREHOLDING AT THE BEGINNING OF THE YEAR		INCREASE/ (DECREASE) IN SHAREHOLDING, IF ANY	REASON	CUMULATIVE SHAREHOLDING DURING THE YEAR	
			NO. OF SHARES	% OF TOTAL SHARES OF THE COMPANY			NO. OF SHARES	% OF TOTAL SHARES OF THE COMPANY
<b>B. Key Managerial Personnel (KMP)</b>								
12	Mr. Saumen Chakraborty President & CFO	01-04-2017	35,250	0.02				
		01-06-2017			1,625	ESOP	36,875	0.02
		21-09-2017			1,875	ESOP	38,750	0.02
		31-03-2018	38,750	0.02				
13	Mr. Sandeep Poddar Company secretary	01-04-2017	1,819	0.00				
		01-06-2017			319	ESOP	2,138	0.00
		28-04-2017			(43)	Sell	2,095	0.00
		10-07-2017			(100)	Sell	1,995	0.00
		21-08-2017			105	ESOP	2,100	0.00
		31-03-2018	2,100	0.00				

\* Holding ADRs.

\*\* Term ended on 28 July 2017 as an independent director.

# The opening holding has been considered from the date on which he was appointed as an independent director.

## V. INDEBTEDNESS

Indebtedness of the company including interest outstanding/accrued but not due for payment

	(₹ MILLION)			
	SECURED LOANS EXCLUDING DEPOSITS	UNSECURED LOANS	DEPOSITS	TOTAL INDEBTEDNESS
<b>Indebtedness at the beginning of the financial year (1 April 2017)</b>				
i) Principal amount	1	23,551	-	23,552
ii) Interest due but not paid	-	-	-	-
iii) Interest accrued but not due	-	20	-	20
<b>Total (i+ii+iii)</b>	<b>1</b>	<b>23,571</b>	<b>-</b>	<b>23,572</b>
<b>Change in indebtedness during the financial year</b>				
Addition, net	-	2,337	-	2,337
Reduction, net	1	-	-	1
Reduction in interest accrued but not due on loan, net	-	12	-	12
<b>Net change</b>	<b>(1)</b>	<b>2,325</b>	<b>-</b>	<b>2,324</b>
<b>Indebtedness at the end of the financial year (31 March 2018)</b>				
i) Principal amount	-	25,888	-	25,888
ii) Interest due but not paid	-	-	-	-
iii) Interest accrued but not due	-	8	-	8
<b>Total (i+ii+iii)</b>	<b>-</b>	<b>25,896</b>	<b>-</b>	<b>25,896</b>

## VI. REMUNERATION OF DIRECTORS AND KEY MANAGERIAL PERSONNEL

## A) Remuneration of managing director, whole-time director and/or manager

				(₹ MILLION)
SL. NO.	PARTICULARS OF REMUNERATION	NAME OF MD/WTD/MANAGER		TOTAL AMOUNT
		K SATISH REDDY	G V PRASAD	
1	Gross salary			
	(a) Salary as per provisions contained in section 17(1) of the Income-tax Act, 1961	12.17	18.52	30.69
	(b) Value of perquisites u/s. 17(2) of the Income-tax Act, 1961	2.33	5.85	8.18
	(c) Profits in lieu of salary u/s. 17(3) of the Income-tax Act, 1961	-	-	-
2	Stock option	-	-	-
3	Sweat equity	-	-	-
4	Commission			
	- as a % of profit	42.00	50.00	92.00
	- others	-	-	-
5	Others, please specify			
	- Company provided car	0.00	1.67	1.67
	- Company's contribution to PF	0.97	1.44	2.41
	<b>Total (A)</b>	<b>57.47</b>	<b>77.48</b>	<b>134.95</b>
Ceiling as per the Act ₹ 692.98 million (being 10% of the net profits of the company calculated as per section 198 of the Companies Act, 2013)				

## B) Remuneration of other directors

											(₹ MILLION)
SL. NO.	PARTICULARS OF REMUNERATION	NAME OF DIRECTORS									TOTAL AMOUNT
		DR. OMKAR GOSWAMI	KALPANA MORPARIA	PRASAD R MENON <sup>(1)</sup>	SRIDAR IYENGAR	DR. BRUCE LA CARTER	ANUPAM PURI	BHARAT N DOSHI	HANS PETER HASLER	DR. ASHOK S GANGULY <sup>(2)</sup>	
1	Independent directors										
	- Fee for attending board and committee meetings	-	-	-	-	-	-	-	-	-	-
	- Commission	6.97	7.29	3.32	8.01	7.68	8.89	8.59	6.93	3.00	60.68
	- Others, please specify	-	-	-	-	-	-	-	-	-	-
	<b>Total (1)</b>	<b>6.97</b>	<b>7.29</b>	<b>3.32</b>	<b>8.01</b>	<b>7.68</b>	<b>8.89</b>	<b>8.59</b>	<b>6.93</b>	<b>3.00</b>	<b>60.68</b>
2	Other non-executive directors										
	- Fee for attending board and committee meetings	-	-	-	-	-	-	-	-	-	-
	- Commission	-	-	-	-	-	-	-	-	-	-
	- Others, please specify	-	-	-	-	-	-	-	-	-	-
	<b>Total (2)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>Total (B)=(1+2)</b>	<b>6.97</b>	<b>7.29</b>	<b>3.32</b>	<b>8.01</b>	<b>7.68</b>	<b>8.89</b>	<b>8.59</b>	<b>6.93</b>	<b>3.00</b>	<b>60.68</b>
Overall ceiling as per Act		₹ 69.30 million (being 1% of the net profits of the company calculated as per section 198 of the Companies Act, 2013)									
<b>Total managerial remuneration* (total of A and B)</b>		<b>195.63</b>									

\* Total remuneration to managing/whole-time directors and other directors.

<sup>(1)</sup> Appointed as an independent director with effect from 30 October 2017.

<sup>(2)</sup> Term ended on 28 July 2017 as an independent director.

## C) Remuneration of key managerial personnel other than MD/WTD/Manager

		(₹ MILLION)			
SL. NO.	PARTICULARS OF REMUNERATION	KEY MANAGERIAL PERSONNEL			TOTAL AMOUNT
		CEO**	CFO	COMPANY SECRETARY	
		SAUMEN CHAKRABORTY#	SANDEEP PODDAR		
1	Gross salary				
	(a) Salary as per provisions contained in section 17(1) of the Income-tax Act, 1961		71.55	7.15	78.70
	(b) Value of perquisites u/s. 17(2) of the Income-tax Act, 1961		2.31	0.28	2.59
	(c) Profits in lieu of salary u/s. 17(3) of the Income-tax Act, 1961		-	-	-
2	Stock option*	Not Applicable	15.62	1.70	17.32
3	Sweat equity		-	-	-
4	Commission		-	-	-
	- as a % of profit		-	-	-
	- others		-	-	-
5	Others, please specify				
	- Company's contribution to PF		2.11	0.29	2.40
	<b>Total</b>		<b>91.59</b>	<b>9.42</b>	<b>101.01</b>

\* Represents intrinsic value (as on grant date) of stock options granted during FY2018. These options vest in 4 years (@25% each year) subject to continued service.

\*\* Mr. G V Prasad is Co-Chairman, managing director and CEO.

# Gross salary includes long-term incentive, payable once in four years.

## VII. PENALTIES/PUNISHMENTS/COMPOUNDING OF OFFENCES

TYPE	SECTION OF THE COMPANIES ACT	BRIEF DESCRIPTION	DETAILS OF PENALTY/PUNISHMENT/COMPOUNDING FEES IMPOSED	AUTHORITY (RD/NCLT/COURT)	APPEAL MADE, IF ANY (GIVE DETAILS)
COMPANY/DIRECTORS/OTHER OFFICERS IN DEFAULT					
Penalty					
Punishment			NIL		
Compounding					

**K Satish Reddy**  
Chairman

# STANDALONE FINANCIAL STATEMENTS

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## INDEPENDENT AUDITORS' REPORT

To the members of Dr. Reddy's Laboratories Limited

### Report on the Standalone Ind AS Financial Statements

We have audited the accompanying standalone Ind AS financial statements of Dr. Reddy's Laboratories Limited ("the Company"), which comprise the Balance Sheet as at 31 March 2018, the Statement of Profit and Loss, including the Statement of Other Comprehensive Income, the Statement of Cash flows and the Statement of Changes in Equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Standalone Ind AS Financial Statements

The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these standalone Ind AS financial statements that give a true and fair view of the financial position, financial performance including other comprehensive income, cash flows and changes in equity of the Company in accordance with accounting principles generally accepted in India, including the Indian Accounting Standards (Ind AS) specified under section 133 of the Act., read with the Companies (Indian Accounting Standards) Rules, 2015, as amended. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgements and estimates that are reasonable and prudent; and the design, implementation and maintenance of adequate internal financial control that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the Ind AS financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these standalone Ind AS financial statements based on our audit. We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder. We conducted our audit of the standalone Ind AS financial statements in accordance with the Standards on Auditing, issued by the Institute of Chartered Accountants of India, as specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the Ind AS financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation of the standalone Ind AS financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the Company's Directors, as well as evaluating the overall presentation of the standalone Ind AS financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the standalone Ind AS financial statements.

### Opinion

In our opinion and to the best of our information and according to the explanations given to us, the standalone Ind AS financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at 31 March 2018, its profit including other comprehensive income, its cash flows and the changes in equity for the year ended on that date.

### Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditor's report) Order, 2016 ("the Order") issued by the Central Government of India in terms of sub-section (11) of section 143 of the Act, we give in the Annexure 1 a statement on the matters specified in paragraphs 3 and 4 of the Order.
2. As required by section 143 (3) of the Act, we report that:
  - a) We have sought and 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 it appears from our examination of those books;
  - c) The Balance Sheet, Statement of Profit and Loss including of Other Comprehensive Income, the Statement of Cash Flows and Statement of Changes in Equity dealt with by this Report are in agreement with the books of account;

**INDEPENDENT AUDITORS' REPORT** (CONTINUED)

- d) In our opinion, the aforesaid standalone Ind AS financial statements comply with the Accounting Standards specified under section 133 of the Act, read with Companies (Indian Accounting Standards) Rules, 2015, as amended;
- e) On the basis of written representations received from the directors as on 31 March 2018, and taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2018, from being appointed as a director in terms of section 164 (2) of the Act;
- f) With respect to the adequacy of the internal financial controls over financial reporting of the Company with reference to these standalone Ind AS financial statements and the operating effectiveness of such controls, refer to our separate report in "Annexure 2" to this report;
- g) With respect to the other matters to be included in the Auditors' Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
  - (i) The Company has disclosed the impact of pending litigations on its financial position in its standalone Ind AS financial statements - Refer Note 2.32 to the standalone Ind AS financial statements;
  - (ii) The Company has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts to the standalone Ind AS financial statements; and
  - (iii) There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company.

for S.R. Batliboi & Associates LLP  
Chartered Accountants  
ICAI Firm Registration Number: 101049W/E300004

per Kaustav Ghose  
Partner  
Membership Number: 57828  
Place : Hyderabad  
Date : 22 May 2018



## **ANNEXURE 1 TO THE INDEPENDENT AUDITOR'S REPORT OF EVEN DATE ON THE STANDALONE FINANCIAL STATEMENTS OF DR. REDDY'S LABORATORIES LIMITED**

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) All fixed assets have not been physically verified by the management during the year but there is a regular programme of verification which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification.
- (c) According to the information and explanations given by the management, the title deeds of immovable properties included in property, plant and equipment are held in the name of the Company.
- (ii) The management has conducted physical verification of inventory at reasonable intervals during the year and no material discrepancies were noticed on such physical verification.
- (iii) According to the information and explanations given to us, the Company has not granted any loans, secured or unsecured to companies, firms, limited liability partnerships or other parties covered in the register maintained under section 189 of the Companies Act, 2013. Accordingly, the provisions of clause 3 (iii) (a), (b) and (c) of the Order are not applicable to the Company and hence not commented upon.
- (iv) In our opinion and according to the information and explanations given to us, the Company has not advanced loans to directors/ to a company in which the Director is interested to which provisions of section 185 of the Companies Act, 2013 apply and hence not commented upon. In our opinion and according to the information and explanations given to us, the Company has made investments and given guarantees/provided security which is in compliance with the provisions of section 186 of the Companies Act, 2013.
- (v) The Company has not accepted any deposits within the meaning of Sections 73 to 76 of the Act and the Companies (Acceptance of Deposits) Rules, 2014 (as amended). Accordingly, the provisions of clause 3(v) of the Order are not applicable.
- (vi) We have broadly reviewed the books of account maintained by the Company pursuant to the rules made by the Central Government for the maintenance of cost records under section 148(1) of the Companies Act, 2013, and are of the opinion that prima facie, the specified accounts and records have been made and maintained. We have not, however, made a detailed examination of the same.
- (vii) (a) The Company is regular in depositing with appropriate authorities undisputed statutory dues including provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty of custom, duty of excise, value added tax, goods and service tax, cess and other statutory dues applicable to it.
- (b) According to the information and explanations given to us, no undisputed amounts payable in respect of provident fund, employees' state insurance, income-tax, , service tax, sales-tax, duty of custom, duty of excise, value added tax, cess and other statutory dues were outstanding, at the year end, for a period of more than six months from the date they became payable.
- (c) According to the records of the Company, the dues of income-tax, sales-tax, service tax, duty of custom, duty of excise, value added tax and cess on account of any dispute, are as set out in Appendix 1.
- (viii) In our opinion and according to the information and explanations given by the management, the Company has not defaulted in repayment of loans or borrowing to banks or government. There are no dues which are payable to financial institutions. The Company did not have any debenture holders during the year.
- (ix) According to the information and explanations given by the management, the Company has not raised any money way of initial public offer/further public offer/debt instruments and term loans hence, reporting under clause (ix) is not applicable to the Company and hence not commented upon.
- (x) Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and according to the information and explanations given by the management, we report that no fraud by the Company or no fraud on the Company by the officers and employees of the Company has been noticed or reported during the year.
- (xi) According to the information and explanations given by the management, the managerial remuneration has been paid/ provided in accordance with the requisite approvals mandated by the provisions of section 197 read with Schedule V to the Companies Act, 2013.
- (xii) In our opinion, the Company is not a nidhi company. Therefore, the provisions of clause 3 (xii) of the order are not applicable to the Company and hence not commented upon.

**ANNEXURE 1 TO THE INDEPENDENT AUDITOR'S REPORT OF EVEN DATE ON THE STANDALONE FINANCIAL STATEMENTS OF DR. REDDY'S LABORATORIES LIMITED** (CONTINUED)

- (xiii) According to the information and explanations given by the management, transactions with the related parties are in compliance with section 177 and 188 of Companies Act, 2013 where applicable and the details have been disclosed in the notes to the financial statements, as required by the applicable accounting standards.
- (xiv) According to the information and explanations given to us and on an overall examination of the balance sheet, the Company has not made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year under review and hence, reporting requirements under clause 3(xiv) are not applicable to the Company and, not commented upon.
- (xv) According to the information and explanations given by the management, the Company has not entered into any non-cash transactions with directors or persons connected with him as referred to in section 192 of Companies Act, 2013.
- (xvi) According to the information and explanations given to us, the provisions of section 45-IA of the Reserve Bank of India Act, 1934 are not applicable to the Company.

for S.R. Batliboi & Associates LLP  
Chartered Accountants  
ICAI Firm Registration Number: 101049W/E300004

per Kaustav Ghose  
Partner  
Membership Number: 57828  
Place : Hyderabad  
Date : 22 May 2018

## **ANNEXURE 2 TO THE INDEPENDENT AUDITORS' REPORT OF EVEN DATE ON THE STANDALONE FINANCIAL STATEMENTS OF DR. REDDY'S LABORATORIES LIMITED**

Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 ("the Act")

We have audited the internal financial controls over financial reporting of Dr. Reddy's Laboratories Limited ("the Company") as of 31 March 2018 in conjunction with our audit of the standalone financial statements of the Company for the year ended on that date.

### **Management's Responsibility for Internal Financial Controls**

The Company's Management is responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India. These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to the Company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on the Company's internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the "Guidance Note") and the Standards on Auditing as specified under section 143(10) of the Companies Act, 2013, to the extent applicable to an audit of internal financial controls and, both issued by the Institute of Chartered Accountants of India. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the internal financial controls system over financial reporting.

### **Meaning of Internal Financial Controls Over Financial Reporting**

A company's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal financial control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

### **Inherent Limitations of Internal Financial Controls Over Financial Reporting**

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

## ANNEXURE 2 TO THE INDEPENDENT AUDITORS' REPORT OF EVEN DATE ON THE STANDALONE FINANCIAL STATEMENTS OF DR. REDDY'S LABORATORIES LIMITED (CONTINUED)

### Opinion

In our opinion, the Company has, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at 31 March 2018, based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India.

for S.R. Batliboi & Associates LLP

Chartered Accountants

ICAI Firm Registration Number: 101049W/E300004

per Kaustav Ghose

Partner

Membership Number: 57828

Place : Hyderabad

Date : 22 May 2018

### Appendix 1 as referred to in paragraph vii(c) of Annexure 1 to the Independent Auditors' Report

NAME OF THE STATUTE	NATURE OF THE DUES	DISPUTED AMOUNT IN ₹ MILLION	AMOUNT PAID UNDER PROTEST IN ₹ MILLION	PERIOD TO WHICH THE AMOUNT RELATES	FORUM WHERE DISPUTE IS PENDING
Central Excise Act, 1944	Excise Duty, Interest and Penalty	1,758	241	2001-2018	Appellate Authority - upto Commissioners CESTAT
		441		1998-2016	
		47		2002-2013	High Court
Customs Act, 1962	Custom Duty	37	1	2003-2004	Appellate Authority - upto Commissioners
		6		2010-2011	High Court
Finance Act, 1994	Cenvat Credit of Service Tax, Interest and Penalty	862	155	2005- 2016	CESTAT
		315		2005- 2018	Appellate Authority - upto Commissioners
		177		2010-2015	CESTAT
		104		2015-2017	Appellate Authority - upto Commissioners
Central Sales Tax Act and Sales Tax Acts of various States	Sales Tax and Penalty	192	238	2002-2018	Sales Tax Appellate Tribunal
		142		2002-2018	Appellate Tribunal - upto Commissioner
		5		2007-2014	High Court
Income Tax Act, 1961	Income Tax	271	-	2009-10	Income Tax Appellate Tribunal
		522		2013-14	Commissioner Appeals
		2		2002-03	Income Tax Appellate Tribunal

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# BALANCE SHEET

PARTICULARS	NOTE	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	2.1	39,790	40,433
Capital work-in-progress		6,750	5,400
Goodwill	2.2	323	323
Other intangible assets	2.2	7,060	7,665
Intangible assets under development	2.2	-	-
Financial assets			
Investments	2.3 A	19,537	18,028
Trade receivables	2.3 B	169	206
Loans	2.3 C	1,991	1,932
Other financial assets	2.3 D	437	462
Deferred tax assets, net	2.26	931	821
Tax assets, net		3,518	2,892
Other non-current assets	2.4 A	112	372
		<b>80,618</b>	<b>78,534</b>
<b>Current assets</b>			
Inventories	2.5	18,568	18,097
Financial assets			
Investments	2.3 A	16,828	12,991
Trade receivables	2.3 B	42,038	44,054
Cash and cash equivalents	2.3 E	1,207	668
Other financial assets	2.3 D	526	1,057
Other current assets	2.4 B	11,218	9,071
		<b>90,385</b>	<b>85,938</b>
<b>Total assets</b>		<b>171,003</b>	<b>164,472</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Equity share capital	2.6	830	829
Other equity		117,248	115,177
		<b>118,078</b>	<b>116,006</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Financial liabilities			
Borrowings	2.7 A	4,880	4,852
Provisions	2.8 A	533	623
Other non-current liabilities	2.9 A	313	411
		<b>5,726</b>	<b>5,886</b>
<b>Current liabilities</b>			
Financial liabilities			
Borrowings	2.7 B	21,008	18,699
Trade payables	2.7 C	10,610	7,787
Other financial liabilities	2.7 D	11,471	11,556
Provisions	2.8 B	1,734	2,084
Other current liabilities	2.9 B	2,376	2,454
		<b>47,199</b>	<b>42,580</b>
<b>Total equity and liabilities</b>		<b>171,003</b>	<b>164,472</b>

The accompanying notes are an integral part of the financial statements.

As per our report of even date attached  
for S.R. Batliboi & Associates LLP  
Chartered Accountants  
ICAI Firm registration number: 101049W/E300004  
per Kaustav Ghose  
Partner  
Membership No.: 57828  
Place : Hyderabad  
Date : 22 May 2018

for and on behalf of the Board of Directors of Dr. Reddy's Laboratories Limited

K Satish Reddy  
G V Prasad  
Saumen Chakraborty  
Sandeep Poddar

Chairman  
Co-Chairman & Chief Executive Officer  
Chief Financial Officer  
Company Secretary

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# STATEMENT OF PROFIT AND LOSS

PARTICULARS	NOTE	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
<b>INCOME</b>			
Sales	2.10	92,468	95,868
License fees and service income		558	413
Other operating income	2.11	567	917
Revenue from operations		93,593	97,198
Other income	2.12	2,040	5,912
Total income		95,633	103,110
<b>EXPENSES</b>			
Cost of materials consumed		20,110	19,046
Purchase of stock-in-trade		6,716	6,715
(Increase)/decrease in inventories of finished goods, work-in-progress and stock-in-trade	2.13	(516)	19
Employee benefits expense	2.14	18,430	18,033
Depreciation and amortisation expense	2.15	7,741	7,351
Finance costs	2.16	628	572
Selling and other expenses	2.17	35,554	35,929
Total expenses		88,663	87,665
Profit before tax		6,970	15,445
Tax expense	2.26		
Current tax		1,381	1,826
Deferred tax		(80)	(222)
<b>Profit for the year</b>		<b>5,669</b>	<b>13,841</b>
<b>Other comprehensive income (OCI)</b>			
Items that will not be reclassified to profit or loss		43	(31)
Tax on items that will not be reclassified to profit or loss		(16)	15
		27	(16)
Items that will be reclassified to profit or loss		(133)	475
Tax on items that may be reclassified to profit or loss		46	(51)
		(87)	424
Total other comprehensive income/(loss) for the year, net of tax		(60)	408
<b>Total comprehensive income for the year</b>		<b>5,609</b>	<b>14,249</b>
Earnings per share:	2.20		
Basic earnings per share of ₹ 5/- each		34.19	83.05
Diluted earnings per share of ₹ 5/- each		34.12	82.88
The accompanying notes are an integral part of the financial statements.			

As per our report of even date attached  
for S.R. Batliboi & Associates LLP  
Chartered Accountants  
ICAI Firm registration number: 101049W/E300004  
per Kaustav Ghose  
Partner  
Membership No.: 57828  
Place : Hyderabad  
Date : 22 May 2018

for and on behalf of the Board of Directors of Dr. Reddy's Laboratories Limited

K Satish Reddy  
G V Prasad  
Saumen Chakraborty  
Sandeep Poddar

Chairman  
Co-Chairman & Chief Executive Officer  
Chief Financial Officer  
Company Secretary

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# STATEMENT OF CHANGES IN EQUITY

Particulars	Other components of equity										Total equity
	Equity share capital	Securities premium reserve	Share-based payment reserve	Capital reserve	Capital redemption reserve	General reserve	Retained earnings	Cash flow hedge reserve	FVTOCI equity investments	Remeasurements of the net defined benefits plan	
<b>Balance as at 1 April 2017</b>	829	4,779	804	267	25	20,302	89,063	82	3	(148)	<b>116,006</b>
Issue of equity shares on exercise of options (Refer note 2.6)	1	432	(432)	-	-	-	-	-	-	-	1
Share-based payment expense (Refer note 2.24)	-	-	454	-	-	-	-	-	-	-	454
Effective portion of changes in fair value of cash flow hedges, net of tax benefit of ₹ 46 (Refer note 2.30)	-	-	-	-	-	-	-	(87)	-	-	(87)
Actuarial gain/(loss) on post-employment benefit obligations, net of tax expense of ₹ 16 (Refer note 2.25)	-	-	-	-	-	-	-	-	-	32	32
Profit for the year	-	-	-	-	-	-	5,669	-	-	-	5,669
Dividend paid (including dividend distribution tax)	-	-	-	-	-	-	(3,992)	-	-	-	(3,992)
Net change in fair value of FVTOCI* equity investments	-	-	-	-	-	-	-	-	(5)	-	(5)
<b>Balance as at 31 March 2018</b>	<b>830</b>	<b>5,211</b>	<b>826</b>	<b>267</b>	<b>25</b>	<b>20,302</b>	<b>90,740</b>	<b>(5)</b>	<b>(2)</b>	<b>(116)</b>	<b>118,078</b>
Particulars	Other components of equity										Total equity
	Equity share capital	Securities premium reserve	Share-based payment reserve	Capital reserve	Capital redemption reserve	General reserve	Retained earnings	Cash flow hedge reserve	FVTOCI equity investments	Remeasurements of the net defined benefits plan	
<b>Balance as at 1 April 2016</b>	853	20,021	906	267	-	18,947	79,930	(12)	(9)	(119)	<b>120,784</b>
Issue of equity shares on exercise of options (Refer note 2.6)	1	452	(452)	-	-	-	-	-	-	-	1
Buy-back of shares (Refer note 2.22)	(25)	(15,669)	-	-	-	-	-	-	-	-	(15,694)
Share-based payment expense (Refer note 2.24)	-	-	350	-	-	-	-	-	-	-	350
Effective portion of changes in fair value of cash flow hedges, net of tax expense of ₹ 51 (Refer note 2.30)	-	-	-	-	-	-	-	94	-	-	94
Actuarial gain/(loss) on post-employment benefit obligations, net of tax benefit of ₹ 15 (Refer note 2.25)	-	-	-	-	-	-	-	-	-	(29)	(29)
Transfer to capital redemption reserve	-	(25)	-	-	25	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	-	13,841	-	-	-	13,841
Transfer to general reserve	-	-	-	-	-	1,355	(1,355)	-	-	-	-
Dividend paid (including dividend distribution tax)	-	-	-	-	-	-	(3,353)	-	-	-	(3,353)
Net change in fair value of FVTOCI* equity investments	-	-	-	-	-	-	-	-	12	-	12
<b>Balance as at 31 March 2017</b>	<b>829</b>	<b>4,779</b>	<b>804</b>	<b>267</b>	<b>25</b>	<b>20,302</b>	<b>89,063</b>	<b>82</b>	<b>3</b>	<b>(148)</b>	<b>116,006</b>
* FVTOCI represents fair value through other comprehensive income.											
The accompanying notes are an integral part of the financial statements.											

As per our report of even date attached  
for **S.R. Batliboi & Associates LLP**  
Chartered Accountants  
ICAI Firm registration number: 101049W/E300004  
per **Kaustav Ghose**  
Partner  
Membership No.: 57828  
Place : Hyderabad  
Date : 22 May 2018

for and on behalf of the Board of Directors of Dr. Reddy's Laboratories Limited

**K Satish Reddy**  
G V Prasad  
Saumen Chakraborty  
Sandeep Poddar

Chairman  
Co-Chairman & Chief Executive Officer  
Chief Financial Officer  
Company Secretary

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# STATEMENT OF CASH FLOWS

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
<b>Cash flows from/(used in) operating activities</b>		
<b>Profit before taxation</b>	<b>6,970</b>	<b>15,445</b>
Adjustments:		
Depreciation and amortisation expense	7,741	7,351
Impairment of intangible assets	53	11
Share-based payment expense	454	372
Fair value gain on financial instruments at fair value through profit or loss	(33)	(677)
Foreign exchange loss/(gain), net	(665)	493
Loss on disposal of property, plant and equipment	55	75
Finance income	(649)	(634)
Finance costs	628	572
Profit on sale of mutual funds, net	(779)	(497)
Allowance for sales returns	1,105	418
Provision for inventory obsolescence	1,965	2,076
Allowances for credit losses, net	(12)	110
Allowances for doubtful advances, net	(36)	9
Dividend from subsidiary	-	(3,199)
Loss on sale of non-current investments	341	673
Reversal of provision relating to non-current investments	(525)	(670)
<i>Changes in operating assets and liabilities:</i>		
Trade receivables	3,361	(6,560)
Inventories	(2,436)	(3,177)
Trade payables	2,738	631
Other assets and liabilities, net	(3,150)	565
Cash generated from operations	17,126	13,387
Income taxes paid, net	(1,740)	(3,228)
<b>Net cash from operating activities</b>	<b>15,386</b>	<b>10,159</b>
<b>Cash flows from/(used in) investing activities</b>		
Proceeds from sale of property, plant and equipment	124	23
Purchase of property, plant and equipment	(7,689)	(9,851)
Purchase of intangible assets	(293)	(581)
Purchase of investments	(60,620)	(48,502)
Proceeds from sale of investments	56,278	69,526
Loans and advances repaid by subsidiaries	63	(9)
Finance income received	338	619
Dividend from subsidiary	-	3,199
<b>Net cash from/(used in) investing activities</b>	<b>(11,799)</b>	<b>14,425</b>
<b>Cash flows from/(used in) financing activities</b>		
Proceeds from exercise of share options	1	1
Buyback of equity shares	-	(15,694)
Repayment of long-term borrowings	(1)	(4,074)
Proceeds from/(repayment of) short-term borrowings, net	1,654	(2,062)
Interest paid	(706)	(636)
Dividend paid to equity holders (including dividend distribution tax)	(3,992)	(3,353)
<b>Net cash used in financing activities</b>	<b>(3,044)</b>	<b>(25,818)</b>
Net increase/(decrease) in cash and cash equivalents	543	(1,234)
Effect of exchange rate changes on cash and cash equivalents	(3)	(120)
Cash and cash equivalents at the beginning of the year (Refer note 2.3 E)	667	2,021
<b>Cash and cash equivalents at the end of the year (Refer note 2.3 E)</b>	<b>1,207</b>	<b>667</b>

The accompanying notes are an integral part of the financial statements.

As per our report of even date attached  
for S.R. Batliboi & Associates LLP  
Chartered Accountants  
ICAI Firm registration number: 101049W/E300004  
per Kaustav Ghose  
Partner  
Membership No.: 57828  
Place : Hyderabad  
Date : 22 May 2018

for and on behalf of the Board of Directors of Dr. Reddy's Laboratories Limited

K Satish Reddy  
G V Prasad  
Saumen Chakraborty  
Sandeep Poddar

Chairman  
Co-Chairman & Chief Executive Officer  
Chief Financial Officer  
Company Secretary



# NOTES TO FINANCIAL STATEMENTS

## NOTE 1 DESCRIPTION OF THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES

### 1.1 Description of the Company

Dr. Reddy's Laboratories Limited ("Dr. Reddy's" or "the Company") is a leading India-based pharmaceutical company headquartered and having its registered office in Hyderabad, Telangana, India. Through its three businesses - Pharmaceutical Services and Active Ingredients, Global Generics and Proprietary Products - the Company offers a portfolio of products and services, including Active Pharmaceutical Ingredients ("APIs"), Custom Pharmaceutical Services ("CPS"), generics, biosimilars, differentiated formulations and New Chemical Entities ("NCEs"). The Company's principal research and development facilities are located in the states of Telangana and Andhra Pradesh in India; its principal manufacturing facilities are located in the states of Telangana, Andhra Pradesh and Himachal Pradesh in India; and its principal markets are in India, Russia, the United States, the United Kingdom and Germany. The Company's shares trade on the Bombay Stock Exchange and the National Stock Exchange in India and also on the New York Stock Exchange in the United States.

### 1.2 Basis of preparation of financial statements

The financial statements of the Company have been prepared and presented in accordance with the Indian Accounting Standards ("Ind AS") notified under the Companies (Indian Accounting Standards) Rules, 2015 and as amended from time to time.

These financial statements have been prepared on the historical cost convention and on an accrual basis, except for the following material items in the balance sheet:

- derivative financial instruments are measured at fair value;
- certain financial assets are measured either at fair value or at amortised cost depending on the classification;
- employee defined benefit assets/(liability) are remeasured at the net total of the fair value of plan assets, plus actuarial losses, less actuarial gains and the present value of the defined benefit obligation;
- long-term borrowings, except obligations under finance leases, are measured at amortised cost using the effective interest rate method; and
- Share-based payments.

### 1.3 Use of estimates and judgements

The preparation of financial statements in conformity with Ind AS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

- Note 1.4 (a) – Assessment of functional currency;
- Note 1.4 (q) – Financial instruments;
- Note 1.4 (b) – Business combinations;
- Notes 1.4 (j) and 1.4 (k) – Useful lives of property, plant and equipment and intangible assets;
- Note 1.4 (m) – Valuation of inventories;
- Note 1.4 (n) – Measurement of recoverable amounts of cash-generating units;
- Note 1.4 (o) – Assets and obligations relating to employee benefits;
- Note 1.4 (o) – Share-based payments;
- Note 1.4 (p) – Provisions and other accruals;
- Note 1.4 (e) – Sales returns and rebates;
- Note 1.4 (h) – Evaluation of recoverability of deferred tax assets; and
- Note 1.4 (p) – Contingencies

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO FINANCIAL STATEMENTS

## 1.4 Significant accounting policies

### a) Functional currency

These financial statements are presented in Indian rupees, which is also the functional currency of the Company. All financial information presented in Indian rupees has been rounded to the nearest million.

### b) Business combinations and goodwill

In accordance with the provisions of Ind AS 101, *First time adoption of Indian Accounting Standards*, the Company has elected to apply the accounting for business combinations prospectively from transition date i.e., 1 April 2015. As such, Indian GAAP balances relating to business combinations entered into before that date, including goodwill, have been carried forward.

The Company uses the acquisition method of accounting to account for business combinations. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another. Control exists when the Company is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through power over the entity. In assessing control, potential voting rights are considered only if the rights are substantive.

The Company measures goodwill as of the applicable acquisition date at the fair value of the consideration transferred, including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount of the identifiable assets acquired and liabilities assumed.

When the fair value of the net identifiable assets acquired and liabilities assumed exceeds the consideration transferred, a bargain purchase gain is recognised immediately in the OCI and accumulates the same in equity as capital reserve where there exists clear evidence of the underlying reasons for classifying the business combination as a bargain purchase else the gain is directly recognised in equity as capital reserve. Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Company to the previous owners of the acquiree, and equity interests issued by the Company. Consideration transferred also includes the fair value of any contingent consideration. Consideration transferred does not include amounts related to the settlement of pre-existing relationships and employee service related payments.

Any goodwill that arises on account of such business combination is tested annually for impairment.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and the settlement is accounted for within equity. Otherwise, other contingent consideration is re-measured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recorded in the statement of profit and loss.

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

On an acquisition-by-acquisition basis, the Company recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Transaction costs that the Company incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees and other professional and consulting fees, are expensed as incurred.

However, the following assets and liabilities acquired in a business combination are measured at the basis indicated below:

- Deferred tax assets or liabilities, and the assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with Ind AS 12, *Income Taxes* and Ind AS 19, *Employee Benefits* respectively.
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share - based payments arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with Ind AS 102, *Share-based Payment* at the acquisition date.
- Assets (or disposal groups) that are classified as held for sale in accordance with Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.
- Reacquired rights are measured at a value determined on the basis of the remaining contractual term of the related contract. Such valuation does not consider potential renewal of the reacquired right.

Acquisition of some or all of the NCI is accounted for as a transaction with equity holders in their capacity as equity holders. Consequently, the difference arising between the fair value of the purchase consideration paid and the carrying value of the NCI is recorded as an adjustment to retained earnings that is attributable to the parent company. The associated cash flows are classified as financing activities. No goodwill is recognised as a result of such transactions.

# NOTES TO FINANCIAL STATEMENTS

## c) Current and non-current classification

All the assets and liabilities have been classified as current or non-current as per the Company's normal operating cycle and other criteria set out in the Schedule III to the Companies Act, 2013 and Ind AS 1, *Presentation of Financial Statements*.

### Assets:

An asset is classified as current when it satisfies any of the following criteria:

- a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;
- b) it is held primarily for the purpose of being traded;
- c) it is expected to be realised within twelve months after the reporting date; or
- d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

### Liabilities:

A liability is classified as current when it satisfies any of the following criteria:

- a) it is expected to be settled in the Company's normal operating cycle;
- b) it is held primarily for the purpose of being traded;
- c) it is due to be settled within twelve months after the reporting date; or
- d) the Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Current assets/liabilities include the current portion of non-current assets/liabilities respectively. All other assets/liabilities are classified as non-current. Deferred tax assets and liabilities are always disclosed as non-current.

## d) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate at that date. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised in the statement of profit and loss in the period in which they arise with the exception of the following:

- Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI; and
- Qualifying cash flow hedges, to the extent that the hedges are effective

When several exchange rates are available, the rate used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date.

## e) Revenue

### Sale of goods

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Revenue from the sale of goods includes excise duty and is measured at the fair value of the consideration received or receivable, net of returns, sales tax and applicable trade discounts, allowances, goods and services tax (GST) and amounts collected on behalf of third parties. Revenue includes shipping and handling costs billed to the customer.

Revenue from sales of generic products in India is recognised upon delivery of products to distributors by clearing and forwarding agents of the Company. Significant risks and rewards in respect of ownership of generic products are transferred by the Company when the goods are delivered to distributors from clearing and forwarding agents. Clearing and forwarding agents are generally compensated on a commission basis as a percentage of sales made by them. Revenue from sales of active pharmaceutical ingredients and intermediates in India is recognised on delivery of products to customers (generally formulation manufacturers), from the factories of the Company, at which point all the significant risks and rewards of ownership of products are transferred.

*(All amounts in Indian Rupees millions, except share data and where otherwise stated)*

# NOTES TO FINANCIAL STATEMENTS

Revenue from export sales and other sales outside of India is recognised when the significant risks and rewards of ownership of products are transferred to the customers, which occurs upon delivery of the products to the customers unless the terms of the applicable contract provide for specific revenue generating activities to be completed, in which case revenue is recognised once all such activities are completed.

## Profit share revenues

The Company from time to time enters into marketing arrangements with certain business partners for the sale of its products in certain markets. Under such arrangements, the Company sells its products to the business partners at a non-refundable base purchase price agreed upon in the arrangement and is also entitled to a profit share which is over and above the base purchase price. The profit share is typically dependent on the business partner's ultimate net sale proceeds or net profits, subject to any reductions or adjustments that are required by the terms of the arrangement. Such arrangements typically require the business partner to provide confirmation of units sold and net sales or net profit computations for the products covered under the arrangement.

Revenue in an amount equal to the base purchase price is recognised in these transactions upon delivery of products to the business partners. An additional amount representing the profit share component is recognised as revenue in the period which corresponds to the ultimate sales of the products made by business partners only when the collectability of the profit share becomes probable and a reliable measurement of the profit share is available. Otherwise, recognition is deferred to a subsequent period pending satisfaction of such collectability and measurability requirements. In measuring the amount of profit share revenue to be recognised for each period, the Company uses all available information and evidence, including any confirmations from the business partner of the profit share amount owed to the Company, to the extent made available before the date the Company's Board of Directors authorises the issuance of its financial statements for the applicable period.

## Milestone payments and out licensing arrangements

Revenues include amounts derived from product out-licensing agreements. These arrangements typically consist of an initial up-front payment on inception of the license and subsequent payments dependent on achieving certain milestones in accordance with the terms prescribed in the agreement. Non-refundable up-front license fees received in connection with product out-licensing agreements are deferred and recognised over the period in which the Company has continuing performance obligations. Milestone payments which are contingent on achieving certain clinical milestones are recognised as revenues either on achievement of such milestones, if the milestones are considered substantive, or over the period the Company has continuing performance obligations, if the milestones are not considered substantive. If milestone payments are creditable against future royalty payments, the milestones are deferred and released over the period in which the royalties are anticipated to be paid.

## Sales Returns

The Company accounts for sales returns accrual by recording an allowance for sales returns concurrent with the recognition of revenue at the time of a product sale. This allowance is based on the Company's estimate of expected sales returns. The Company deals in various products and operates in various markets. Accordingly, the estimate of sales returns is determined primarily by the Company's historical experience in the markets in which the Company operates. With respect to established products, the Company considers its historical experience of sales returns, levels of inventory in the distribution channel, estimated shelf life, product discontinuances, price changes of competitive products, and the introduction of competitive new products, to the extent each of these factors impact the Company's business and markets. With respect to new products introduced by the Company, such products have historically been either extensions of an existing line of product where the Company has historical experience or in therapeutic categories where established products exist and are sold either by the Company or the Company's competitors.

## Services

Revenue from services rendered, which primarily relate to contract research, is recognised in the statement of profit and 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.

## License fee

The Company enters into certain dossier sales, licensing and supply arrangements with various parties. Income from licensing arrangements is generally recognised over the term of the contract. Some of these arrangements include certain performance obligations by the Company. Revenue from such arrangements is recognised in the period in which the Company completes all its performance obligations.

# NOTES TO FINANCIAL STATEMENTS

## f) Interest income and dividend

Interest income primarily comprises of interest from term deposits with banks and on loans to subsidiary companies. Interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the gross carrying amount of the financial asset. Interest income is included in other income in the statement of profit and loss.

Dividend income is recognised when the Company's right to receive the payment is established, which is generally when shareholders approve the dividend.

## g) Government grants

The Company recognises government grants only when there is reasonable assurance that the conditions attached to them will be complied with, and the grants will be received. Government grants received in relation to assets are presented in the balance sheet by setting up the grant as deferred income. Grants related to income are deducted in reporting the related expense in the statement of profit and loss.

Export entitlements from government authorities are recognised in the statement of profit and loss as a reduction from "Cost of materials consumed" when the right to receive credit as per the terms of the scheme is established in respect of the exports made by the Company, and where there is no significant uncertainty regarding the ultimate collection of the relevant export proceeds.

## h) Income tax

Income tax expense consists of current and deferred tax. Income tax expense is recognised in the statement of profit and loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences:

- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit;
- differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising upon the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Company recognises deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, except to the extent that both of the following conditions are satisfied:

- a) When the Company is able to control the timing of the reversal of the temporary difference; and
- b) it is probable that the temporary difference will not reverse in the foreseeable future.

Dividend distribution tax arising out of payment of dividends to shareholders under the Indian Income tax regulations is not considered as tax expense for the Company and all such taxes are recognised in the statement of changes in equity as part of the associated dividend payment.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO FINANCIAL STATEMENTS

## i) Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which includes all stock options granted to employees.

## j) Property, plant and equipment

### Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and other costs directly attributable to bringing the asset to a working condition for its intended use. General and specific borrowing costs that are directly attributable to the construction or production of a qualifying asset are capitalised as part of the cost of that asset during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

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

Gains and losses upon disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised in the statement of profit and loss.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of repairs and maintenance are recognised in the statement of profit and loss as incurred.

Items of property, plant and equipment acquired through exchange of non-monetary assets are measured at fair value, unless the exchange transaction lacks commercial substance or the fair value of either the asset received or asset given up is not reliably measurable, in which case the asset exchanged is recorded at the carrying amount of the asset given up.

### Depreciation

Depreciation is recognised in the statement of profit and loss on a straight line basis over the estimated useful lives of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

Leasehold improvements are depreciated over the period of the lease agreement or the useful life, whichever is shorter.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and, if expectations differ from previous estimates, the change(s) are accounted for as a change in an accounting estimate in accordance with Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

The estimated useful lives are as follows:

	Years
Buildings	
- Factory and administrative buildings	20 to 30
- Ancillary structures	3 to 10
Plant and machinery	5 to 10
Furniture, fixtures and office equipment	3 to 8
Vehicles	4 to 5

Schedule II to the Companies Act, 2013 ("Schedule") prescribes the useful lives for various classes of tangible assets. For certain class of assets, based on the technical evaluation and assessment, the Company believes that the useful lives adopted by it best represent the period over which an asset is expected to be available for use. Accordingly, for these assets, the useful lives estimated by the Company are different from those prescribed in the Schedule.

Software for internal use, which is primarily acquired from third-party vendors and which is an integral part of a tangible asset, including consultancy charges for implementing the software, is capitalised as part of the related tangible asset. Subsequent costs associated with maintaining such software are recognised as expense as incurred. The capitalised costs are amortised over the estimated useful life of the software or the remaining useful life of the tangible fixed asset, whichever is lower.

Advances paid towards the acquisition of property, plant and equipment outstanding at each reporting date is disclosed as capital advances under other non-current assets. The cost of property, plant and equipment not ready to use before such date are disclosed under capital work-in-progress. Assets not ready for use are not depreciated.

# NOTES TO FINANCIAL STATEMENTS

## k) Goodwill and other intangible assets

### Recognition and measurement

Goodwill	<p>Goodwill represents the excess of consideration transferred, together with the amount of non-controlling interest in the acquiree, over the fair value of the identifiable net assets acquired.</p> <p>Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and any impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying value of the equity accounted investee.</p>
Other intangible assets	<p>Other intangible assets that are acquired by the Company and that have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.</p> <p>Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction, or, when applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Indian Accounting Standards.</p>
Research and development	<p>Expenditures on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding are recognised in the statement of profit and loss when incurred.</p> <p>Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the asset. As of 31 March 2018, none of the development expenditures amount has met the aforesaid recognition criteria.</p> <p>The expenditures to be capitalised include the cost of materials and other costs directly attributable to preparing the asset for its intended use. Other development expenditures are recognised in the statement of profit and loss as incurred.</p>
Separate acquisition of intangible assets	<p>Payments to third parties that generally take the form of up-front payments and milestones for in-licensed products, compounds and intellectual property are capitalised. The Company's criteria for capitalisation of such assets are consistent with the guidance given in paragraph 25 of Indian Accounting Standard 38 ("Ind AS 38") (i.e., receipt of economic benefits out of the separately purchased transaction is considered to be probable).</p>
In-Process Research and Development assets ("IPR&D") or Intangible assets under development	<p>Acquired research and development intangible assets that are under development are recognised as In-Process Research and Development assets ("IPR&amp;D") or Intangible assets under development. IPR&amp;D assets are not amortised, but evaluated for potential impairment on an annual basis or when there are indications that the carrying value may not be recoverable.</p>
<b>Subsequent expenditure</b>	
Other intangible assets	<p>Subsequent expenditures are capitalised only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures, including expenditures on internally generated goodwill and brands, is recognised in the statement of profit and loss as incurred.</p>
In-Process Research and Development assets ("IPR&D") or Intangible assets under development	<p>Subsequent expenditure on an in-process research or development project acquired separately or in a business combination and recognised as an intangible asset is:</p> <ol style="list-style-type: none"> <li>recognised as an expense when incurred, if it is research expenditure;</li> <li>recognised as an expense when incurred, if it is development expenditure that does not satisfy the criteria for recognition as an intangible asset in paragraph 57 of Ind AS 38; and</li> <li>added to the carrying amount of the acquired in-process research or development project, if it is development expenditure that satisfies the recognition criteria in paragraph 57 of Ind AS 38.</li> </ol>

### Amortisation

Amortisation is recognised in the statement of profit and loss on a straight-line basis over the estimated useful lives of intangible assets or on any other basis that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity. Intangible assets that are not available for use are amortised from the date they are available for use.

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO FINANCIAL STATEMENTS

The estimated useful lives are as follows:

	Years
Customer contracts	2 to 5
Technical know-how	10
Product related intangibles	5 to 15
Copyrights and Patents (including marketing/distribution rights)	3 to 15
Other intangibles	3 to 5

The amortisation period and the amortisation method for intangible assets with a finite useful life are reviewed at each reporting date.

Intangible assets relating to products in development, other intangible assets not available for use and intangible assets having indefinite useful life are subject to impairment testing at each reporting date. All other intangible assets are tested for impairment when there are indications that the carrying value may not be recoverable. All impairment losses are recognised immediately in the statement of profit and loss.

## De-recognition of intangible assets

Intangible assets are de-recognised either on their disposal or where no future economic benefits are expected from their use. Losses arising on such de-recognition are recorded in the statement of profit and loss, and are measured as the difference between the net disposal proceeds, if any, and the carrying amount of respective intangible assets as on the date of de-recognition.

## l) Leases

At the inception of each lease, the lease arrangement is classified as either a finance lease or an operating lease, based on the substance of the lease arrangement. A lease that transfers substantially all the risks and rewards incidental to ownership to the lessee is classified as a finance lease. All other leases are classified as operating leases.

### Finance leases

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

### Operating leases

Other leases are operating leases, and the leased assets are not recognised on the Company's balance sheet. Payments made under operating leases are recognised in the statement of profit and loss on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases.

Operating lease incentives received from the landlord are recognised as a reduction of rental expense on a straight line basis over the lease term.

## m) Inventories

Inventories consist of raw materials, stores and spares, work-in-progress and finished goods and are measured at the lower of cost and net realisable value. The cost of all categories of inventories is based on the weighted average method. Cost includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of finished goods and work-in-progress, cost includes an appropriate share of overheads based on normal operating capacity. Stores and spares, that do not qualify to be recognised as property, plant and equipment, consists of packing materials, engineering spares (such as machinery spare parts) and consumables (such as lubricants, cotton waste and oils), which are used in operating machines or consumed as indirect materials in the manufacturing process.

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

The factors that the Company considers in determining the allowance for slow moving, obsolete and other non-saleable inventory include estimated shelf life, planned product discontinuances, price changes, ageing of inventory and introduction of competitive new products, to the extent each of these factors impact the Company's business and markets. The Company considers all these factors and adjusts the inventory provision to reflect its actual experience on a periodic basis.

## n) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment.



# NOTES TO FINANCIAL STATEMENTS

If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, an impairment test is performed each year at 31 March.

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

The goodwill acquired in a business combination is, for the purpose of impairment testing, allocated to cash-generating units that are expected to benefit from the synergies of the combination.

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Goodwill that forms part of the carrying amount of an investment in an associate is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

## o) Employee benefits

### Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

### Defined contribution plans

The Company's contributions to defined contribution plans are charged to the statement of profit and loss as and when the services are received from the employees.

### Defined benefit plans

The liability in respect of defined benefit plans and other post-employment benefits is calculated using the projected unit credit method consistent with the advice of qualified actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related defined benefit obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used. The current service cost of the defined benefit plan, recognised in the statement of profit and loss in employee benefit expense, reflects the increase in the defined benefit obligation resulting from employee service in the current year, benefit changes, curtailments and settlements. Past service costs are recognised immediately in income. The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the statement of profit and loss. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

### Termination benefits

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

### Other long-term employee benefits

The Company's net obligation in respect of other long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and previous periods. That benefit is discounted to determine its present value. Re-measurements are recognised in the statement of profit and loss in the period in which they arise.

*(All amounts in Indian Rupees millions, except share data and where otherwise stated)*

# NOTES TO FINANCIAL STATEMENTS

## Compensated absences

The Company's current policies permit certain categories of its employees to accumulate and carry forward a portion of their unutilised compensated absences and utilise them in future periods or receive cash in lieu thereof in accordance with the terms of such policies. The Company measures the expected cost of accumulating compensated absences as the additional amount that the Company incurs as a result of the unused entitlement that has accumulated at the balance sheet date. Such measurement is based on actuarial valuation as at the balance sheet date carried out by a qualified actuary. Re-measurements are recognised in the statement of profit and loss in the period in which they arise.

## Share-based payments

The grant date fair value of options granted to employees is recognised as an employee expense, in the statement of profit and loss, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. The expense is recorded for each separately vesting portion of the award as if the award was, in substance, multiple awards. The increase in equity recognised in connection with share-based payment transaction is presented as a separate component in equity under "share-based payment reserve". The amount recognised as an expense is adjusted to reflect the actual number of stock options that vest.

## p) Provisions, contingent liabilities and contingent assets

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

### Restructuring

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

### Onerous contracts

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

### Reimbursement rights

Expected reimbursements for expenditures required to settle a provision are recognised only when receipt of such reimbursements is virtually certain. Such reimbursements are recognised as a separate asset in the balance sheet, with a corresponding credit to the specific expense for which the provision has been made.

### Contingent liabilities

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 a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

### Contingent assets

Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

## q) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

### Financial assets

#### *Initial recognition and measurement*

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

# NOTES TO FINANCIAL STATEMENTS

## Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Debt instruments at amortised cost;
- Debt instruments at fair value through other comprehensive income (FVTOCI);
- Debt instruments, derivatives and equity instruments at fair value through profit or loss (FVTPL); and
- Equity instruments measured at fair value through other comprehensive income (FVTOCI).

## Debt instruments at amortised cost

A 'debt instrument' is measured at the amortised cost if both the following conditions are met:

- a) The asset is held within a business model whose objective is to hold assets for collecting contractual cash flows; and
- b) Contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in other income in the statement of profit and loss. The losses arising from impairment are recognised in the statement of profit and loss. This category generally applies to trade and other receivables.

## Debt instrument at FVTOCI

A 'debt instrument' is classified as at the FVTOCI if both of the following criteria are met:

- a) The objective of the business model is achieved both by collecting contractual cash flows and selling the financial assets; and
- b) The asset's contractual cash flows represent SPPI.

Debt instruments included within the FVTOCI category are measured initially as well as at each reporting date at fair value. Fair value movements are recognised in the other comprehensive income (OCI). However, the Company recognises interest income, impairment losses & reversals and foreign exchange gain or loss in the statement of profit and loss. On derecognition of the asset, cumulative gain or loss previously recognised in OCI is reclassified to the statement of profit and loss. Interest earned whilst holding FVTOCI debt instrument is reported as interest income using the EIR method.

## Debt instrument at FVTPL

FVTPL is a residual category for debt instruments. Any debt instrument, which does not meet the criteria for categorisation as at amortised cost or as FVTOCI, is classified as at FVTPL.

In addition, the Company may elect to designate a debt instrument, which otherwise meets amortised cost or FVTOCI criteria, as at FVTPL. However, such election is allowed only if doing so reduces or eliminates a measurement or recognition inconsistency (referred to as 'accounting mismatch'). The Company has not designated any debt instrument as at FVTPL.

Debt instruments included within the FVTPL category are measured at fair value with all changes recognised in the statement of profit and loss.

## Equity investments

All equity investments in scope of Ind AS 109 are measured at fair value. Equity instruments which are held for trading and contingent consideration recognised by an acquirer in a business combination to which Ind AS 103 applies are classified as at FVTPL. For all other equity instruments, the Company may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value. The Company makes such election on an instrument by-instrument basis. The classification is made on initial recognition and is irrevocable.

If the Company decides to classify an equity instrument as at FVTOCI, then all fair value changes on the instrument, excluding dividends, are recognised in the OCI. There is no recycling of the amounts from OCI to the statement of profit and loss, even on sale of investment. However, the Company may transfer the cumulative gain or loss within equity.

Equity instruments included within the FVTPL category are measured at fair value with all changes recognised in the statement of profit and loss.

## Investments in subsidiaries and joint venture:

Investments in subsidiaries and joint venture are carried at cost less accumulated impairment losses, if any. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount. On disposal of investments in subsidiaries and joint venture, the difference between net disposal proceeds and the carrying amounts are recognised in the statement of profit and loss.

*(All amounts in Indian Rupees millions, except share data and where otherwise stated)*

# NOTES TO FINANCIAL STATEMENTS

Upon first-time adoption of Ind AS, the Company has elected to measure its investments in subsidiaries and joint ventures at the Previous GAAP carrying amount as its deemed cost on the date of transition to Ind AS i.e., 1 April 2015.

## Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Company's balance sheet) when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

## Impairment of trade receivables

In accordance with Ind AS 109, the Company applies expected credit loss (ECL) model for measurement and recognition of impairment loss on the trade receivables or any contractual right to receive cash or another financial asset that result from transactions that are within the scope of Ind AS 18.

For this purpose, the Company follows 'simplified approach' for recognition of impairment loss allowance on the trade receivable balances. The application of simplified approach does not require the Company to track changes in credit risk. Rather, it recognises impairment loss allowance based on lifetime ECLs at each reporting date, right from its initial recognition.

As a practical expedient, the Company uses a provision matrix to determine impairment loss allowance on portfolio of its trade receivables. The provision matrix is based on its historically observed default rates over the expected life of the trade receivables and is adjusted for forward-looking estimates. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

## Financial liabilities

### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, financial guarantee contracts and derivative financial instruments.

### *Subsequent measurement*

The measurement of financial liabilities depends on their classification, as described below:

#### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by Ind AS 109. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit and loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated as such at the initial date of recognition, and only if the criteria in Ind AS 109 are satisfied. For liabilities designated as FVTPL, fair value gains/losses attributable to changes in own credit risk are recognised in OCI. These gains/losses are not subsequently transferred to the statement of profit and loss. However, the Company may transfer the cumulative gain or loss within equity. All other changes in fair value of such liability are recognised in the statement of profit and loss. The Company has not designated any financial liability as fair value through profit and loss.

# NOTES TO FINANCIAL STATEMENTS

## Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the statement of profit and loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit and loss.

## Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit and loss.

## Derivative financial instruments

The Company is exposed to exchange rate risk which arises from its foreign exchange revenues and expenses, primarily in US dollars, UK pounds sterling, Russian roubles, Brazilian reals, South African rands ("ZAR"), Romanian new leus ("RON") and Euros, and foreign currency debt in US dollars, Russian roubles, Ukrainian hryvnias and Euros.

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

## Hedges of highly probable forecasted transactions

The Company classifies its derivative financial instruments that hedge foreign currency risk associated with highly probable forecasted transactions as cash flow hedges and measures them at fair value. The effective portion of such cash flow hedges is recorded in the Company's hedging reserve as a component of equity and re-classified to the statement of profit and loss as revenue in the period corresponding to the occurrence of the forecasted transactions. The ineffective portion of such cash flow hedges is recorded in the statement of profit and loss as finance costs immediately.

The Company also designates certain non-derivative financial liabilities, such as foreign currency borrowings from banks, as hedging instruments for hedge of foreign currency risk associated with highly probable forecasted transactions. Accordingly, the Company applies cash flow hedge accounting to such relationships. Remeasurement gain/loss on such non-derivative financial liabilities is recorded in the Company's hedging reserve as a component of equity and reclassified to the statement of profit and loss as revenue in the period corresponding to the occurrence of the forecasted transactions.

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 recognised in other comprehensive income, remains there until the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in the statement of profit and loss.

## Hedges of recognised assets and liabilities

Changes in the fair value of derivative contracts that economically hedge monetary assets and liabilities in foreign currencies, and for which no hedge accounting is applied, are recognised in the statement of profit and loss. The changes in fair value of such derivative contracts, as well as the foreign exchange gains and losses relating to the monetary items, are recognised in the statement of profit and loss.

## Hedges of changes in the interest rates

Consistent with its risk management policy, the Company uses interest rate swaps to mitigate the risk of changes in interest rates. The Company does not use them for trading or speculative purposes.

## r) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value. For this purpose, "short-term" means investments having maturity of three months or less from the date of investment. Bank overdrafts that are repayable on demand and form an integral part of our cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

## s) Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using effective interest method, less provision for impairment.

*(All amounts in Indian Rupees millions, except share data and where otherwise stated)*

# NOTES TO FINANCIAL STATEMENTS

## t) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are presented as current liabilities unless payment is not due within twelve months after the reporting period. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## 1.5 Determination of fair values

The Company's accounting policies and disclosures require the determination of fair value, for certain financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

### a) Property, plant and equipment

Property, plant and equipment, if acquired in a business combination or through an exchange of non-monetary assets, is measured at fair value on the acquisition date. For this purpose, fair value is based on appraised market values and replacement cost.

### b) Intangible assets

The fair value of brands, technology related intangibles, and patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of these brands, technology related intangibles, patents or trademarks being owned (the "relief of royalty method"). The fair value of customer related, product related and other intangibles acquired in a business combination has been determined using the multi-period excess earnings method after deduction of a fair return on other assets that are part of creating the related cash flows.

### c) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

### d) Investments in equity and debt securities and units of mutual funds

The fair value of marketable equity and debt securities is determined by reference to their quoted market price at the reporting date. For debt securities where quoted market prices are not available, fair value is determined using pricing techniques such as discounted cash flow analysis.

In respect of investments in mutual funds, the fair values represent net asset value as stated by the issuers of these mutual fund units in the published statements. Net asset values represent the price at which the issuer will issue further units in the mutual fund and the price at which issuers will redeem such units from the investors.

Accordingly, such net asset values are analogous to fair market value with respect to these investments, as transactions of these mutual funds are carried out at such prices between investors and the issuers of these units of mutual funds.

### e) Derivatives

The fair value of foreign exchange forward contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds). The fair value of foreign currency option and swap contracts and interest rate swap contracts is determined based on the appropriate valuation techniques, considering the terms of the contract.

### f) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements. In respect of the Company's borrowings that have floating rates of interest, their fair value approximates carrying value.

### g) Share-based payment transactions

The fair value of employee stock options is measured using the Black-Scholes-Merton valuation model. Measurement inputs include share price on grant date, exercise price of the instrument, expected volatility (based on weighted average historical volatility), expected life of the instrument (based on historical experience), expected dividends, and the risk free interest rate (based on government bonds).

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO FINANCIAL STATEMENTS

## NOTE 2 NOTES TO FINANCIAL STATEMENTS

### 2.1 PROPERTY, PLANT AND EQUIPMENT

PARTICULARS	GROSS CARRYING VALUE			ACCUMULATED DEPRECIATION			NET CARRYING VALUE	
	AS AT 1 APRIL 2017	ADDITIONS	DISPOSALS	AS AT 31 MARCH 2018	FOR THE YEAR	DISPOSALS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2018
Land	1,353	324	7	1,670	-	-	-	1,670
Buildings	16,384	899	75	17,208	699	37	4,133	13,075
Plant and machinery	53,178	4,798	995	56,981	5,682	912	32,838	24,143
Furniture and fixtures	1,050	64	9	1,105	91	5	899	206
Office equipment	2,784	295	87	2,992	406	82	2,339	653
Vehicles								
Owned	122	10	4	128	18	4	85	43
Assets taken on finance lease	24	-	24	-	-	24	-	-
<b>TOTAL</b>	<b>74,895</b>	<b>6,390</b>	<b>1,201</b>	<b>80,084</b>	<b>6,896</b>	<b>1,064</b>	<b>40,294</b>	<b>39,790</b>

PARTICULARS	GROSS CARRYING VALUE			ACCUMULATED DEPRECIATION			NET CARRYING VALUE	
	AS AT 1 APRIL 2016	ADDITIONS	DISPOSALS	AS AT 31 MARCH 2017	FOR THE YEAR	DISPOSALS	AS AT 31 MARCH 2017	AS AT 31 MARCH 2017
Land	1,283	70	-	1,353	-	-	-	1,353
Buildings	14,395	2,019	30	16,384	607	19	3,471	12,913
Plant and machinery	45,397	8,070	289	53,178	5,193	274	28,068	25,110
Furniture and fixtures	950	104	4	1,050	94	4	813	237
Office equipment	2,289	549	54	2,784	403	56	2,015	769
Vehicles								
Owned	172	20	70	122	17	72	71	51
Assets taken on finance lease	35	-	11	24	2	12	24	-
<b>TOTAL</b>	<b>64,521</b>	<b>10,832</b>	<b>458</b>	<b>74,895</b>	<b>6,316</b>	<b>437</b>	<b>34,462</b>	<b>40,433</b>

a) Depreciation for the year includes an amount of ₹ 640 (31 March 2017: ₹ 630) pertaining to assets used for research and development. During the year, the Company incurred ₹ 419 (31 March 2017: ₹ 1,041) towards capital expenditure for research and development. (Refer note 2.36)

b) During the year the Company has capitalised borrowing costs of ₹ 71 (31 March 2017: ₹ 65) with respect to qualifying assets. The rate for capitalisation of interest costs for the years ended 31 March 2018 and 31 March 2017 was approximately 2.76% and 2.14%, respectively.

c) As of 31 March 2018 and 31 March 2017, the Company was committed to spend ₹ 3,477 and ₹ 5,040, respectively, under agreements to purchase property, plant and equipment. This amount is net of capital advances paid in respect of such purchase commitments.

# NOTES TO FINANCIAL STATEMENTS

## 2.2 GOODWILL, OTHER INTANGIBLE ASSETS AND INTANGIBLE ASSETS UNDER DEVELOPMENT

PARTICULARS	GROSS CARRYING VALUE			ACCUMULATED AMORTISATION/IMPAIRMENT			NET CARRYING VALUE	
	AS AT 1 APRIL 2017	ADDITIONS	DISPOSALS	AS AT 1 APRIL 2017	FOR THE YEAR	IMPAIRMENT (a)	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Goodwill	323	-	-	-	-	-	-	323
Customer contracts	243	-	-	243	-	-	243	-
Technical know-how	561	-	-	484	9	-	493	68
Product related intangibles	8,851	206	-	2,480	559	53	3,092	5,965
Copyrights and Patents (including marketing/distribution rights)	1,030	10	-	294	73	-	367	673
Other intangibles	851	77	-	370	204	-	574	354
<b>TOTAL</b>	<b>11,859</b>	<b>293</b>	-	<b>3,871</b>	<b>845</b>	<b>53</b>	<b>4,769</b>	<b>7,383</b>

PARTICULARS	GROSS CARRYING VALUE			ACCUMULATED AMORTISATION/IMPAIRMENT			NET CARRYING VALUE	
	AS AT 1 APRIL 2016	ADDITIONS	DISPOSALS	AS AT 1 APRIL 2016	FOR THE YEAR	IMPAIRMENT	AS AT 31 MARCH 2017	AS AT 31 MARCH 2017
Goodwill	323	-	-	-	-	-	-	323
Customer contracts	243	-	-	243	-	-	243	-
Technical know-how	561	-	-	475	9	-	484	77
Product related intangibles	8,592	259	-	1,709	771	-	2,480	6,371
Copyrights and Patents (including marketing/distribution rights)	994	36	-	1,030	65	-	294	736
Other intangibles	566	285	-	180	190	-	370	481
<b>TOTAL</b>	<b>11,279</b>	<b>580</b>	-	<b>2,836</b>	<b>1,035</b>	-	<b>3,871</b>	<b>7,988</b>

a) As a result of the Company's decision to discontinue a few products pertaining to its Global Generics segment, product related intangibles of ₹ 20 and ₹ 33, were recorded as impairment loss for the year ended 31 March 2018 under "Selling and other expenses" in the statement of profit and loss.

b) Amortisation for the year includes an amount of ₹ 82 (31 March 2017: ₹ 71) pertaining to assets used for research and development. During the year, the Company incurred ₹ 36 (31 March 2017: ₹ 59) towards capital expenditure for research and development. (Refer note 2.36)

## INTANGIBLE ASSETS UNDER DEVELOPMENT

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Opening balance at the beginning of the year	-	11
Add: Additions during the year	-	-
Less: Capitalisations during the year	-	-
Less: Impairments during the year (a)	-	(11)
<b>Closing balance at the end of the year</b>	<b>-</b>	<b>-</b>

a) As a result of the Company's decision to discontinue further development of certain intangible assets under development pertaining to its Pharmaceutical Services and Active Ingredients (PSAI) segment, an amount of ₹ 11 was recorded as impairment loss for the year ended 31 March 2017 under "Selling and other expenses" in the statement of profit and loss.



(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO FINANCIAL STATEMENTS

## 2.3 FINANCIAL ASSETS

### 2.3 A INVESTMENTS

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
<b>Investments at fair value through OCI</b>		
Quoted equity shares ( <i>fully paid-up</i> )		
120,000 (31 March 2017: 120,000) equity shares of ₹ 1/- each of State Bank of India (a)	30	35
Total investments at fair value through OCI	30	35
a) In respect of shares of State Bank of India, the share certificates were lost in transit during transfer. The Company has initiated necessary legal action at the appropriate courts.		
<b>Investments carried at cost</b>		
Unquoted equity shares ( <i>fully paid-up</i> )		
<b>I. In subsidiary companies</b>		
105,640,410 (31 March 2017: 105,640,410) equity shares of CHF 1 each of Dr. Reddy's Laboratories SA, Switzerland	13,515	13,515
2,499,826 (31 March 2017: 2,499,826) equity shares of ₹ 10/- each of Idea2Enterprises India Private Limited, India	1,537	1,537
90,544,104 (31 March 2017: 90,544,104) equity shares of ₹ 10/- each of Aurigene Discovery Technologies Limited, India	974	974
36,249,230 (31 March 2017: 36,249,230) shares of Real \$ 1 each of Dr. Reddy's Farmaceutica Do Brasil Ltda., Brazil	825	825
140,526,270 (31 March 2017: 140,526,270) Series "A" shares of Peso 1 each of Industrias Quimicas Falcon de Mexico S.A. de C.V., Mexico	709	709
Nil (31 March 2017: 9,066,000) ordinary shares of Euro 1 each of Reddy Pharma Iberia SA, Spain (a)	-	566
54,022,070 (31 March 2017: 54,022,070) equity shares of ₹ 10/- each of Dr. Reddy's Bio-sciences Limited, India	466	466
20,050,000 (31 March 2017: 50,000) equity shares of ₹ 1/- each of Regkinetics Services Limited, India (formerly known as Dr. Reddy's Pharma SEZ Limited, India)	201	1
1,131,646 (31 March 2017: 1,131,646) equity shares of US\$ 1 each of Reddy Antilles N.V., Netherlands	52	52
123,000 (31 March 2017: 123,000) equity shares of ₹ 100/- each of Imperial Credit Private Limited, India	31	31
134,513 (31 March 2017: 134,513) equity shares of ₹ 10/- each of Cheminor Investments Limited, India	1	1
	<b>18,311</b>	<b>18,677</b>
Less: Impairment		
Dr. Reddy's Farmaceutica Do Brasil Ltda., Brazil	(622)	(634)
Reddy Antilles N.V., Netherlands	(52)	-
Reddy Pharma Iberia SA, Spain	-	(566)
Total unquoted investments in equity shares of subsidiary companies, net (I)	<b>17,637</b>	<b>17,477</b>
<b>II. In joint ventures</b>		
Equity shares held in Kunshan Rotam Reddy Pharmaceutical Co. Limited, China (b)	429	429
8,580,000 (31 March 2017: 8,580,000) equity shares of ₹ 10/- each of DRES Energy Private Limited, India	86	86
Nil (31 March 2017: 26,000) equity shares of ₹ 10/- each of DRSS Solar Power Private Limited, India (c)	-	-
Total unquoted investments in equity shares of joint ventures, net (II)	<b>515</b>	<b>515</b>
Total investments carried at cost (I+II)	<b>18,152</b>	<b>17,992</b>
a) Shares held in Reddy Pharma Iberia SA, Spain, have been sold to wholly owned subsidiary of the Company, Dr. Reddy's Laboratories SA, Switzerland during the year ended 31 March 2018.		
b) Shares held in Kunshan Rotam Reddy Pharmaceutical Co. Limited, China are not denominated in number of shares as per the laws of the country.		
c) Liquidated during the year ended 31 March 2018. Rounded off to millions in the note above for the year ended 31 March 2017.		
<b>Investments at fair value through profit or loss</b>		
<b>I. Investment in unquoted equity shares</b>		
8,859 (31 March 2017: 8,859) equity shares of ₹ 100/- each of Jeedimetla Effluent Treatment Limited, India	1	1
Ordinary shares of Biomed Russia Limited, Russia (a)	-	-
200,000 (31 March 2017: 200,000) equity shares of ₹ 10/- each of Altek Engineering Limited, India	-	-
24,000 (31 March 2017: 24,000) equity shares of ₹ 100/- each of Progressive Effluent Treatment Limited, India	-	-
20,250 (31 March 2017: 20,250) equity shares of ₹ 10/- each of Shivalik Solid Waste Management Limited, India (b)	-	-
Total unquoted trade investments in equity shares of other companies, net (I)	<b>1</b>	<b>1</b>
a) Shares held in Biomed Russia Limited are not denominated in number of shares as per the laws of the country.		
b) Rounded off to millions in the note above.		
<b>II. Investment in unquoted mutual funds (Refer note 2.27)</b>	<b>13,317</b>	<b>10,881</b>
Total investments at fair value through profit or loss (I + II)	<b>13,318</b>	<b>10,882</b>

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO FINANCIAL STATEMENTS

## 2.3 A INVESTMENTS (CONTINUED)

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
<b>Investments carried at amortised cost</b>		
Investments in bonds	4,633	-
Investments in commercial paper	232	-
Investments in term deposit accounts (original maturity more than 3 months)	-	2,110
Total investments carried at amortised cost	4,865	2,110
<b>Total investments</b>	<b>36,365</b>	<b>31,019</b>
Current	16,828	12,991
Non-current	19,537	18,028
	<b>36,365</b>	<b>31,019</b>
Aggregate book value of quoted investments	30	35
Aggregate market value of quoted investments	30	35
Aggregate value of unquoted investments	37,009	32,184
Aggregate amount of impairment in the value of investments in the unquoted equity shares	674	1,270

## 2.3 B TRADE RECEIVABLES

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Trade receivables from other parties	7,846	6,358
Receivables from subsidiaries (Refer note 2.21)	34,361	37,902
	<b>42,207</b>	<b>44,260</b>
<b>Details of security</b>		
Unsecured, considered good	42,207	44,260
Unsecured, considered doubtful	3,943	3,938
	<b>46,150</b>	<b>48,198</b>
Less: Allowance for credit loss (Refer note 2.31 (b))	(3,943)	(3,938)
	<b>42,207</b>	<b>44,260</b>
Current	42,038	44,054
Non-current	169	206
	<b>42,207</b>	<b>44,260</b>

## 2.3 C LOANS

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
<b>Unsecured</b>		
<b>Considered good</b>		
Loans and advances to wholly owned subsidiaries (a)	1,991	1,932
	<b>1,991</b>	<b>1,932</b>
<b>Considered doubtful</b>		
Loans and advances to wholly owned subsidiaries (a)	338	404
Others	8	8
	<b>2,337</b>	<b>2,344</b>
Less: Allowance for doubtful loans and advances (Refer note 2.31 (b))	(346)	(412)
	<b>1,991</b>	<b>1,932</b>

a) Loans and advances to wholly owned subsidiaries comprise:

PARTICULARS	BALANCE AS AT		MAXIMUM AMOUNT OUTSTANDING AT ANY TIME DURING THE YEAR ENDED	
	31 MARCH 2018	31 MARCH 2017	31 MARCH 2018	31 MARCH 2017
Industrias Quimicas Falcon de Mexico S.A. de C.V., Mexico	1,669	1,604	1,725	1,867
Reddy Antilles N.V., Netherlands	338	337	340	357
Dr. Reddy's Farmaceutica Do Brasil Ltda., Brazil	311	384	397	384
DRL Impex Limited, India	11	11	11	111
Cheminor Investments Limited, India (b)	-	-	-	-
Dr. Reddy's Bio-sciences Limited, India (b)	-	-	-	-
	<b>2,329</b>	<b>2,336</b>		

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO FINANCIAL STATEMENTS

## 2.3 C LOANS (CONTINUED)

- b) Rounded off to millions in the note above.
- c) The settlement of loans and advances to wholly owned subsidiaries is neither planned nor likely to occur in the next twelve months. Loans given to DRL Impex Limited, India, Reddy Antilles N.V., Netherlands, Cheminor Investments Limited, India and Dr. Reddy's Bio-sciences Limited, India are interest free. Other loans carry the following rates of interest:

LOAN TO	INTEREST RATE PER ANNUM
Industrias Quimicas Falcon de Mexico S.A. de C.V., Mexico	9%
Dr. Reddy's Farmaceutica Do Brasil Ltda., Brazil	6%

- d) Loans and advances to wholly owned subsidiaries are given for the purpose of working capital and other business requirements.

## 2.3 D OTHER FINANCIAL ASSETS

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
<b>I. Non-current assets</b>		
<i>Unsecured, considered good</i>		
Security deposits	437	415
In term deposit accounts (remaining maturity more than 12 months)	-	13
Other assets	-	34
	<b>437</b>	<b>462</b>
<b>II. Current assets</b>		
<i>Unsecured, considered good</i>		
Claims receivable	223	581
Interest accrued but not due on investments	113	69
Derivative financial instruments - asset	17	220
Receivables from subsidiary companies including step down subsidiaries:		
Dr. Reddy's Bio-sciences Limited, India	54	69
Dr. Reddy's Laboratories SA, Switzerland	34	12
Reddy Antilles N.V., Netherlands	-	17
Others	27	77
Other assets	58	12
<i>Unsecured, considered doubtful</i>		
Receivables from subsidiary companies including step down subsidiaries:		
Reddy Antilles N.V., Netherlands	19	-
	<b>545</b>	<b>1,057</b>
Less: Allowance for doubtful advances	(19)	-
	<b>526</b>	<b>1,057</b>

## 2.3 E CASH AND CASH EQUIVALENTS

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Balances with banks		
In current accounts (a)	240	251
In EEFC accounts	1	1
In deposit accounts (original maturity less than 3 months)	879	333
Cash on hand	1	2
Other bank balances (restricted)		
In unclaimed dividend accounts	56	47
In unclaimed fractional share pay order accounts	1	1
In unclaimed debentures and debenture interest account	15	16
LC and Bank guarantee margin money	14	17
Total cash and cash equivalents	<b>1,207</b>	<b>668</b>
Less: Bank overdraft (Refer note 2.7 B)	-	(1)
Cash and cash equivalents for the purpose of statement of cash flows	<b>1,207</b>	<b>667</b>

- a) includes ₹ 0.01 (31 March 2017: ₹ 2) representing cash and cash equivalents held in Venezuelan Bolivars, which are subject to foreign exchange controls.

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO FINANCIAL STATEMENTS

## 2.4 OTHER ASSETS

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
<b>A. Non-current assets</b>		
<i>Unsecured, considered good</i>		
Capital advances	86	372
Others	26	-
	<b>112</b>	<b>372</b>
<b>B. Current assets</b>		
<i>Unsecured, considered good</i>		
Balances with statutory authorities	8,940	7,290
Advances to material suppliers	1,152	798
Prepaid expenses	383	347
Others	743	636
<i>Unsecured, considered doubtful</i>		
Other advances	82	71
	<b>11,300</b>	<b>9,142</b>
Less: Provision for doubtful advances	(82)	(71)
	<b>11,218</b>	<b>9,071</b>

## 2.5 INVENTORIES

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Raw materials (includes in transit ₹ 14; 31 March 2017: ₹ 19)	5,692	5,822
Work-in-progress	6,278	6,039
Finished goods	2,912	2,428
Stock-in-trade	1,527	1,734
Packing materials, stores and spares	2,159	2,074
	<b>18,568</b>	<b>18,097</b>

a) During the year the Company recorded inventory write-down of ₹ 1,965 (31 March 2017: ₹ 2,076). This is included as part of cost of materials consumed.

## 2.6 SHARE CAPITAL

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
<b>Authorised share capital</b>		
240,000,000 equity shares of ₹ 5/- each (31 March 2017: 240,000,000)	<b>1,200</b>	<b>1,200</b>
<b>Issued equity capital</b>		
165,911,107 equity shares of ₹ 5/- each fully paid-up (31 March 2017: 165,741,913)	<b>830</b>	<b>829</b>
<b>Subscribed and fully paid-up</b>		
165,910,907 equity shares of ₹ 5/- each fully paid-up (31 March 2017: 165,741,713)	<b>830</b>	<b>829</b>
Add: Forfeited share capital (e)	-	-
	<b>830</b>	<b>829</b>

a) Reconciliation of the equity shares outstanding is set out below:

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018		FOR THE YEAR ENDED 31 MARCH 2017	
	NO. OF EQUITY SHARES	AMOUNT	NO. OF EQUITY SHARES	AMOUNT
Number of shares outstanding at the beginning of the year	165,741,713	829	170,607,653	853
Add: Equity shares issued pursuant to employee stock option plan	169,194	1	211,564	1
Less: Equity shares bought-back	-	-	(5,077,504)	(25)
Number of shares outstanding at the end of the year	<b>165,910,907</b>	<b>830</b>	<b>165,741,713</b>	<b>829</b>

b) Terms/rights attached to the equity shares:

The Company has only one class of equity shares having a par value of ₹ 5 per share. Each holder of equity shares is entitled to one vote per share. The Company declares and pays dividends in Indian rupees. During the year ended 31 March 2018, the amount of per share dividend proposed as distributions to equity shareholders is ₹ 20 (31 March 2017: ₹ 20). The dividend proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing Annual General Meeting and, if approved would result in a cash outflow of approximately ₹ 4,000 including dividend distribution tax. In the event of liquidation, the equity shareholders are eligible to receive the remaining assets of the Company after distribution of all preferential amounts, in proportion to their shareholding.

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO FINANCIAL STATEMENTS

## 2.6 SHARE CAPITAL (CONTINUED)

c) Details of shareholders holding more than 5% shares in the Company:

PARTICULARS	AS AT 31 MARCH 2018		AS AT 31 MARCH 2017	
	NO. OF EQUITY SHARES HELD	% HOLDING IN THE CLASS	NO. OF EQUITY SHARES HELD	% HOLDING IN THE CLASS
Dr. Reddy's Holdings Limited	41,083,500	24.76	40,627,000	24.51
First State Investments Management (UK) Limited, First State Investments International Limited and their associates*	10,726,942	6.47	14,907,551	8.99

\* Does not include ADR holding.

- d) 320,544 (31 March 2017: 330,142) stock options are outstanding and are to be issued by the Company upon exercise of the same in accordance with the terms of exercise under the "Dr. Reddy's Employees Stock Option Plan 2002" and 107,308 (31 March 2017: 88,141) stock options are outstanding and are to be issued by the Company upon exercise of the same in accordance with the terms of exercise under the "Dr. Reddy's Employees ADR Stock Option Plan 2007". (Refer note 2.24)
- e) Represents 200 equity shares of ₹ 5/- each, amount paid-up ₹ 500/- (rounded off to millions in the note above) forfeited due to non-payment of allotment money.
- f) During the year ended 31 March 2017, the Company bought-back and extinguished 5,077,504 equity shares under the buy-back of equity shares plan approved by the shareholders on 1 April 2016. (Refer note 2.22)

Aggregate number of shares bought-back during the period of five years immediately preceding the reporting date:

PARTICULARS	YEAR ENDED 31 MARCH				
	2018	2017	2016	2015	2014
Ordinary shares of ₹ 5 each	-	5,077,504	-	-	-

## 2.7 FINANCIAL LIABILITIES

### 2.7 A NON-CURRENT BORROWINGS

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
<i>Unsecured</i>		
Long-term loans from banks (a)	4,880	4,852
	<b>4,880</b>	<b>4,852</b>

### 2.7 B CURRENT BORROWINGS

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
<i>From Banks</i>		
<i>Unsecured</i>		
Packing credit loans (b)	21,008	18,698
Bank overdraft	-	1
	<b>21,008</b>	<b>18,699</b>

- a) Represents External Commercial Borrowing, carrying interest rate of 1 Month LIBOR plus 82.7 bps and is repayable in three equal installments in the years ending 31 March 2020 and 31 March 2021.

As per the loan arrangement, the Company is required to comply with certain financial covenants and the Company was in compliance with such covenants as at 31 March 2018 and 31 March 2017.

- b) Packing credit loans for the year ended 31 March 2018, comprised of US\$ denominated loans carrying interest rates of 1 Month LIBOR minus 30 to plus 30 bps, RUB denominated loans carrying fixed interest rate of 6.75%, and INR denominated loans carrying fixed interest rate of 6.00% and are repayable within 6 to 12 months from the date of drawdown. Packing credit loans for the year ended 31 March 2017, comprised of US\$ denominated loans carrying interest rates of 1 Month LIBOR minus 30 to plus 1 bps, RUB denominated loans carrying fixed interest rate of 9.95%, and INR denominated loans carrying fixed interest rate of 6.92% to 6.95% and Indian Treasury bill plus 30 bps and are repayable within 6 to 12 months from the date of drawdown.
- c) The Company had unutilised credit limits of ₹ 14,209 and ₹ 12,437 as of 31 March 2018 and 31 March 2017, respectively, from its banks for working capital requirements. The Company has the right to draw upon these lines of credit based on its working capital requirements.

- d) Reconciliation of liabilities arising from financing activities\*

PARTICULARS	NON-CURRENT BORROWINGS	CURRENT BORROWINGS	TOTAL
Opening balance at the beginning of the year	4,853	18,698	23,551
Borrowings made during the year	-	30,539	30,539
Borrowings repaid during the year	(1)	(28,885)	(28,886)
Effect of changes in foreign exchange rates	24	656	680
Others	4	-	4
Closing balance at the end of the year	<b>4,880</b>	<b>21,008</b>	<b>25,888</b>

\* Aforesaid reconciliation does not include movement in bank overdraft and includes movement in current maturities of finance lease obligations.

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO FINANCIAL STATEMENTS

## 2.7 C TRADE PAYABLES

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Trade payables to third parties		
Due to micro, small and medium enterprises (a)	93	43
Other parties	10,018	7,310
Trade payables to subsidiaries including step down subsidiaries (Refer note 2.21)	499	434
	<b>10,610</b>	<b>7,787</b>

- a) (i) The principal amount remaining unpaid as at 31 March 2018 in respect of enterprises covered under the "Micro, Small and Medium Enterprises Development Act, 2006" (MSMED) is ₹ 93 (31 March 2017: ₹ 43). The interest amount computed based on the provisions under Section 16 of the MSMED is ₹ 0.00 (31 March 2017: ₹ 0.02) is remaining unpaid as of 31 March 2018. The interest amount of ₹ 0.02 that remained unpaid as at 31 March 2017 was paid fully during the current year.
- (ii) 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 (31 March 2017: Nil).
- (iii) The list of undertakings covered under MSMED was determined by the Company on the basis of information available with the Company and has been relied upon by the auditors.

## 2.7 D OTHER FINANCIAL LIABILITIES

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Accrued expenses	5,262	5,132
Payable to subsidiary companies including step down subsidiaries (Refer note 2.21)	3,655	3,674
Due to capital creditors	2,266	2,530
Derivative financial instruments - liability	85	6
Trade and security deposits received	74	73
Unclaimed dividends, debentures and debenture interest (a)	71	63
Interest accrued but not due on loan	8	20
Current maturity of finance lease obligation	-	1
Others	50	57
	<b>11,471</b>	<b>11,556</b>

- a) Unclaimed amounts are transferred to Investor Protection and Education Fund after seven years from the due date.

## 2.8 PROVISIONS

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
<b>A. Non-current provisions</b>		
Provision for employee benefits (Refer note 2.25)		
Compensated absences	484	441
Long service award benefit plan	49	182
	<b>533</b>	<b>623</b>
<b>B. Current provisions</b>		
Provision for employee benefits (Refer note 2.25)		
Compensated absences	313	305
Gratuity	49	153
Long service award benefit plan	13	22
Other provisions (a)		
Allowance for sales returns	837	879
Others	522	725
	<b>1,734</b>	<b>2,084</b>

- a) Details of changes in provisions are as follows:

PARTICULARS	ALLOWANCE FOR SALES RETURNS	OTHERS
Balance as at 1 April 2017	879	725
Provision made or reversed during the year	1,105	(37)
Provision used during the year	(1,147)	(166)
Balance as at 31 March 2018	<b>837</b>	<b>522</b>

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO FINANCIAL STATEMENTS

## 2.9 OTHER LIABILITIES

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
<b>A. Other non-current liabilities</b>		
Deferred revenue	313	411
	<b>313</b>	<b>411</b>
<b>B. Other current liabilities</b>		
Salary and bonus payable	1,420	1,350
Due to statutory authorities	655	230
Advance from customers	192	238
Deferred revenue	109	113
Long-term incentive plan	-	523
	<b>2,376</b>	<b>2,454</b>

## 2.10 SALES

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Sales (a)	92,468	95,868
	<b>92,468</b>	<b>95,868</b>

- a) Post implementation of Goods and Services Tax ("GST") with effect from 1 July 2017, sales is disclosed net of GST. Sales for the year ended 31 March 2017 included excise duty of ₹ 939, which is now subsumed in the GST. Sales for the year ended 31 March 2018 includes excise duty of ₹ 173 upto 30 June 2017. Accordingly, sales for the year ended 31 March 2018 are not comparable with those of the previous year presented.

## 2.11 OTHER OPERATING INCOME

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Sale of spent chemicals	297	206
Scrap sales	160	207
Miscellaneous income (a)	110	504
	<b>567</b>	<b>917</b>

- a) During the year ended 31 March 2017, the Company entered into an agreement with Galderma Laboratories, LP, to settle the ongoing litigation relating to launch of a product in the United States of America. Pursuant to the settlement, the Company recorded an amount of ₹ 417 representing the consideration attributable to settlement of litigation.

## 2.12 OTHER INCOME

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Interest income		
On fixed deposits	118	381
On loans to subsidiaries	164	218
Others	367	35
Profit on sale of mutual funds, net	779	497
Dividend from subsidiaries (a)	-	3,199
Foreign exchange gain, net	349	831
Fair value gain on financial instruments through profit or loss	33	677
Miscellaneous income	230	74
	<b>2,040</b>	<b>5,912</b>

- a) Represents dividends received from Dr. Reddy's Laboratories SA, Switzerland and Aurigene Discoveries Technologies Limited, India.

## 2.13 CHANGES IN INVENTORIES OF FINISHED GOODS, WORK-IN-PROGRESS AND STOCK-IN-TRADE

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018		FOR THE YEAR ENDED 31 MARCH 2017	
<b>Opening</b>				
Work-in-progress	6,039		6,402	
Finished goods	2,428		2,444	
Stock-in-trade	1,734	10,201	1,374	10,220
<b>Closing</b>				
Work-in-progress	6,278		6,039	
Finished goods	2,912		2,428	
Stock-in-trade	1,527	10,717	1,734	10,201
		<b>(516)</b>		<b>19</b>

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO FINANCIAL STATEMENTS

## 2.14 EMPLOYEE BENEFITS EXPENSE

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Salaries, wages and bonus	15,617	15,292
Contribution to provident and other funds	1,093	1,002
Staff welfare expenses	1,266	1,367
Share-based payment expenses	454	372
	<b>18,430</b>	<b>18,033</b>

## 2.15 DEPRECIATION AND AMORTISATION EXPENSE

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Depreciation of property, plant and equipment	6,896	6,316
Amortisation of intangible assets	845	1,035
	<b>7,741</b>	<b>7,351</b>

## 2.16 FINANCE COSTS

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Interest on long-term borrowings	113	152
Interest on other borrowings	515	420
	<b>628</b>	<b>572</b>

## 2.17 SELLING AND OTHER EXPENSES

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Consumption of stores, spares and other materials	5,080	4,544
Clinical trial expenses	2,662	2,525
Other research and development expenses	4,312	5,091
Advertisements	147	334
Commission on sales	163	149
Carriage outward	2,091	1,623
Other selling expenses	8,534	7,879
Legal and professional	3,141	4,129
Power and fuel	2,973	2,963
Repairs and maintenance		
Buildings	367	457
Plant and machinery	677	843
Others	1,780	1,524
Insurance	182	250
Travel and conveyance	786	959
Rent	154	195
Rates and taxes	228	305
Corporate Social Responsibility and donations (a)	494	429
Allowance for credit loss, net (Refer note 2.31 (b))	(12)	110
Allowance for doubtful advances, net	(36)	9
Non-Executive Directors' remuneration	61	74
Auditors' remuneration (Refer note 2.19)	15	15
Loss on sale of non-current investments	341	673
Reversal of provision relating to non-current investments	(525)	(670)
Loss on disposal of property, plant and equipment, net	55	75
Other general expenses	1,884	1,444
	<b>35,554</b>	<b>35,929</b>

a) Details of Corporate Social Responsibility expenditure in accordance with section 135 of the Companies Act, 2013:

PARTICULARS	IN CASH	YET TO BE PAID IN CASH	TOTAL
Gross amount required to be spent by the Company during the year			327
Amount spent during the year ending on 31 March 2018	328	-	328
Amount spent during the year ending on 31 March 2017	427	-*	427

\*Rounded off to millions.



(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO FINANCIAL STATEMENTS

## 2.18 RESEARCH AND DEVELOPMENT EXPENSES

Details of research and development expenses (excluding depreciation and amortisation expense) incurred during the year and included under various heads of expenditures are given below:

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Employee benefits expense (included in note 2.14)	3,116	2,914
Other expenses (included in note 2.17)		
Clinical trial expenses	2,662	2,525
Materials and consumables	3,740	2,987
Power and fuel	155	137
Other research and development expenses	4,312	5,091
	<b>13,985</b>	<b>13,654</b>

## 2.19 AUDITORS' REMUNERATION

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
a) Audit fees	12	12
b) Other charges		
Taxation matters	-	1*
Other matters	1	1
c) Reimbursement of out of pocket expenses	2	1
	<b>15</b>	<b>15</b>

\* Represents ₹ 600 thousands rounded off to millions.

## 2.20 EARNINGS PER SHARE (EPS)

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
<b>Earnings</b>		
Profit attributable to equity holders of the parent	5,669	13,841
<b>Shares</b>		
Number of shares at the beginning of the year	165,741,713	170,607,653
Add: Equity shares issued on exercise of vested stock options	169,194	211,564
Less: Buy back of equity shares	-	(5,077,504)
Total number of equity shares outstanding at the end of the year	165,910,907	165,741,713
Weighted average number of equity shares outstanding during the year - Basic	165,845,408	166,648,943
Add: Weighted average number of equity shares arising out of outstanding stock options that have dilutive effect on the EPS	340,144	348,732
Weighted average number of equity shares outstanding during the year - Diluted	166,185,552	166,997,675
Earnings per share of par value ₹ 5/- - Basic (₹)	<b>34.19</b>	<b>83.05</b>
Earnings per share of par value ₹ 5/- - Diluted (₹)	<b>34.12</b>	<b>82.88</b>

## 2.21 RELATED PARTIES

a) List of all subsidiaries, joint ventures and other consolidating entities:

### Subsidiaries including step down subsidiaries

1	Aurigene Discovery Technologies (Malaysia) SDN BHD, Malaysia
2	Aurigene Discovery Technologies Inc., USA
3	Aurigene Discovery Technologies Limited, India
4	beta Institut gemeinnützige GmbH, Germany
5	betapharm Arzneimittel GmbH, Germany
6	Chemisor Investments Limited, India
7	Chienna B.V., Netherlands (Merged with Dr. Reddy's Research and Development B.V. w.e.f. from 1 January 2017)
8	Chirotech Technology Limited, UK
9	Dr. Reddy's Bio-sciences Limited, India
10	Dr. Reddy's Farmaceutica Do Brasil Ltda., Brazil
11	Dr. Reddy's Laboratories (Australia) Pty. Limited, Australia
12	Dr. Reddy's Laboratories (EU) Limited, UK
13	Dr. Reddy's Laboratories (Proprietary) Limited, South Africa
14	Dr. Reddy's Laboratories (UK) Limited, UK

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO FINANCIAL STATEMENTS

## 2.21 RELATED PARTIES (CONTINUED)

15	Dr. Reddy's Laboratories Canada, Inc., Canada
16	Dr. Reddy's Laboratories Chile SPA., Chile (from 16 June 2017)
17	Dr. Reddy's Laboratories Inc., USA
18	Dr. Reddy's Laboratories International SA, Switzerland
19	Dr. Reddy's Laboratories Japan KK, Japan
20	Dr Reddy's Laboratories Kazakhstan, Kazakhstan (from 30 November 2016)
21	Dr. Reddy's Laboratories LLC, Ukraine
22	Dr. Reddy's Laboratories Louisiana LLC, USA
23	Dr. Reddy's Laboratories Malaysia Sdn. Bhd., Malaysia (from 10 July 2017)
24	Dr. Reddy's Laboratories New York, Inc., USA
25	Dr. Reddy's Laboratories Romania S.R.L., Romania
26	Dr. Reddy's Laboratories SA, Switzerland
27	Dr. Reddy's Laboratories SAS, Colombia
28	Dr. Reddy's Laboratories Taiwan Limited, Taiwan (from 23 February 2018)
29	Dr. Reddy's Laboratories Tennessee, LLC, USA
30	Dr. Reddy's New Zealand Limited, New Zealand
31	Regkinetics Services Limited, India (formerly Dr. Reddy's Pharma SEZ Limited, India)
32	Dr. Reddy's Research and Development B.V. (formerly Octoplus BV)
33	Dr. Reddy's Singapore PTE Limited, Singapore
34	Dr. Reddy's Srl, Italy
35	Dr. Reddy's (WUXI) Pharmaceutical Co. Ltd, China (from 2 June 2017)
36	Dr. Reddy's Venezuela, C.A., Venezuela
37	DRL Impex Limited, India
38	Eurobridge Consulting B.V., Netherlands
39	Idea2Enterprises (India) Private Limited, India
40	Imperial Credit Private Limited, India (Acquired w.e.f. from 22 February 2017)
41	Industrias Quimicas Falcon de Mexico, S.A.de C.V, Mexico
42	Lacock Holdings Limited, Cyprus
43	OctoPlus Development B.V. (Merged with Dr. Reddy's Research and Development B.V. w.e.f. from 1 January 2017)
44	OctoPlus PolyActive Sciences B.V.( Merged with Dr. Reddy's Research and Development B.V. w.e.f. from 1 January 2017)
45	OctoPlus Sciences B.V.( Merged with Dr. Reddy's Research and Development B.V. w.e.f. from 1 January 2017)
46	OctoPlus Technologies B.V.( Merged with Dr. Reddy's Research and Development B.V. w.e.f. from 1 January 2017)
47	OctoShare B.V.( Merged with Dr. Reddy's Research and Development B.V. w.e.f. from 1 January 2017)
48	OOO Dr. Reddy's Laboratories Limited, Russia
49	OOO DRS LLC, Russia
50	Promius Pharma LLC, USA
51	Reddy Antilles N.V., Netherlands
52	Reddy Cheminor S.A., France (liquidated during the year ended 31 March 2017)
53	Reddy Holding GmbH, Germany
54	Reddy Netherlands B.V., Netherlands
55	Reddy Pharma Iberia SA, Spain
56	Reddy Pharma Italia S.R.L, Italy
57	Reddy Pharma SAS, France

### Joint ventures

58	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% of equity shares
59	DRANU LLC, USA	Enterprise over which the Company's step down subsidiary exercises joint control with other joint venture partner and holds 50% of equity shares
60	DRSS Solar Power Private Limited, India (liquidated during the year)	Enterprise over which the Company exercises joint control with other joint venture partners and holds 26% of equity shares
61	DRES Energy Private Limited	Enterprise over which the Company exercises joint control with other joint venture partners and holds 26% of equity shares

### Other consolidating entities

62	Cheminor Employees Welfare Trust, India	The Company does not have any equity interests in this entity, but has significant influence or control over it.
63	Dr. Reddy's Research Foundation, India	The Company does not have any equity interests in this entity, but has significant influence or control over it.

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO FINANCIAL STATEMENTS

## 2.21 RELATED PARTIES (CONTINUED)

b) List of other related parties with whom transactions have taken place during the current and/or previous year:

1	Dr. Reddy's Institute of Life Sciences	Enterprise over which whole-time directors have significant influence
2	Stamlo Hotels Limited	Enterprise controlled by whole-time directors
3	Green Park Hotels and Resorts Limited	Enterprise controlled by relative of a whole-time director
4	K Samrajyam	Mother of Chairman
5	G Anuradha	Spouse of Chief Executive Officer
6	Deepti Reddy	Spouse of Chairman
7	G Mallika Reddy	Daughter of Chief Executive Officer
8	G V Sanjana Reddy	Daughter of Chief Executive Officer
9	Akhil Ravi (from 5 March 2018)	Son-in-law of Chief Executive Officer
10	Dr. Reddy's Foundation	Enterprise over which whole-time directors and their relatives have significant influence
11	Pudami Educational Society	Enterprise over which whole-time directors and their relatives have significant influence
12	Green Park Hospitality Services Private Limited	Enterprise controlled by relative of a whole-time director

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

c) In accordance with the provisions of Ind AS 24, *Related Party Disclosures* and the Companies Act, 2013, Company's Directors, members of the Company's Management Council and Company Secretary are considered as Key Management Personnel.

List of Key Management Personnel of the Company is as below:

1	K Satish Reddy	Whole-time director
2	G V Prasad	Whole-time director
3	Anupam Puri	Independent director
4	Bharat Narotam Doshi	Independent director
5	Dr. Bruce LA Carter	Independent director
6	Dr. Omkar Goswami	Independent director
7	Hans Peter Hasler	Independent director
8	Kalpana Morparia	Independent director
9	Sridar Iyengar	Independent director
10	Prasad R Menon (from 30 October 2017)	Independent director
11	Dr. Ashok Ganguly (till 28 July 2017)	Independent director
12	Ravi Bhoothalingam (till 27 July 2016)	Independent director
13	Alok Sonig	Management council
14	Dr. Amit Biswas <sup>(1)</sup>	Management council
15	Dr. Cartikeya Reddy <sup>(2)</sup>	Management council
16	Dr. K V S Ram Rao	Management council
17	M V Ramana	Management council
18	Saumen Chakraborty	Management council
19	Ganadhish Kamat (from 18 April 2016)	Management council
20	Anil Namboodiripad (from 1 July 2016)	Management council
21	Archana Bhaskar (from 15 June 2017)	Management council
22	Sanjay Sharma (from 1 August 2017)	Management council
23	Samiran Das (till 31 January 2018)	Management council
24	Abhijit Mukherjee (till 31 March 2018)	Management council
25	Dr. Chandrasekhar Sripada (till 31 July 2017)	Management council
26	Dr. Raghav Chari (till 31 October 2016)	Management council
27	J Ramachandran (from 15 September 2016 till 31 October 2017)	Management council
28	Sauri Gudlavalleti (from 1 April 2018) <sup>(1)</sup>	Management council
29	P. Yougandhar (from 1 April 2018)	Management council
30	Erez Israeli (from 2 April 2018) <sup>(3)</sup>	Management council
31	Sandeep Poddar	Company secretary

<sup>(1)</sup> Sauri Gudlavalleti, has joined the management council, effective as of 1 April 2018. Dr. Amit Biswas, will retire in June 2018 and will mentor the team in this transition.

<sup>(2)</sup> Raymond de Vre, will join the management council, effective from 1 June 2018. Dr. Cartikeya Reddy has decided to move from the Company and will work through an extended transition phase until 30 September 2018.

<sup>(3)</sup> On 2 April 2018, Erez Israeli joined the Company as Chief Operating Officer and Global Head of Generics and PSAI businesses.

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO FINANCIAL STATEMENTS

## 2.21 RELATED PARTIES (CONTINUED)

### d) Particulars of related party transactions

The following is a summary of significant related party transactions:

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
<b>(i) Revenues from subsidiaries including step down subsidiaries</b>		
Dr. Reddy's Laboratories Inc.	31,750	37,458
OOO Dr. Reddy's Laboratories Limited	9,581	8,620
Dr. Reddy's Laboratories SA	4,845	4,842
Others	6,377	6,434
<b>Total</b>	<b>52,553</b>	<b>57,354</b>
<b>(ii) Interest income from subsidiaries including step down subsidiaries</b>		
Industrias Quimicas Falcon de Mexico S.A. de C.V.	147	147
Dr. Reddy's Farmaceutica Do Brasil Ltda.	17	70
DRL Impex Limited	-	1
<b>Total</b>	<b>164</b>	<b>218</b>
<b>(iii) Service income from subsidiaries including step down subsidiaries</b>		
Dr. Reddy's Laboratories Inc.	141	58
Dr. Reddy's Laboratories SA	9	4
Chirotech Technology Limited	-	21
Dr. Reddy's Laboratories (EU) Limited	-	8
<b>Total</b>	<b>150</b>	<b>91</b>
<b>(iv) Licence fees from subsidiaries including step down subsidiaries</b>		
Dr. Reddy's Laboratories Inc.	34	43
Dr. Reddy's Laboratories SA	(7)	221
<b>Total</b>	<b>27</b>	<b>264</b>
<b>(v) Commission on guarantee to Dr. Reddy's Laboratories SA</b>	78	-
<b>(vi) Rent from Aurigene Discovery Technologies Limited</b>	14	14
<b>(vii) Dividend income from from subsidiaries including step down subsidiaries</b>		
Dr. Reddy's Laboratories SA	-	3,018
Aurigene Discovery Technologies Limited	-	181
<b>Total</b>	<b>-</b>	<b>3,199</b>
<b>(viii) Reimbursement of operating expenses by subsidiaries and step down subsidiaries</b>		
Aurigene Discovery Technologies Limited	35	37
Promius Pharma LLC	-	80
Dr. Reddy's Laboratories SA	-	-
<b>Total</b>	<b>35</b>	<b>117</b>
<b>(ix) Purchases and services from Subsidiaries including step down subsidiaries</b>		
OOO Dr. Reddy's Laboratories Limited	3,114	2,828
Dr. Reddy's Research and Development B.V.	1,020	993
Dr. Reddy's Laboratories Inc.	856	1,403
Dr. Reddy's Laboratories (EU) Limited	582	34
Others	1,235	1,069
<b>Total</b>	<b>6,807</b>	<b>6,327</b>
<b>Other related parties</b>		
Dr. Reddy's Institute of Life Sciences	98	114
<b>Total</b>	<b>98</b>	<b>114</b>
<b>(x) Contributions towards social development</b>		
Dr. Reddy's Foundation	203	277
Pudami Educational Society	35	41
<b>Total</b>	<b>238</b>	<b>318</b>
<b>(xi) Canteen services expenses</b>		
Green Park Hospitality Services Private Limited	178	-

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO FINANCIAL STATEMENTS

## 2.21 RELATED PARTIES (CONTINUED)

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
(xii) Hotel expenses paid/payable to		
Green Park Hotels and Resorts Limited	41	39
Stamlo Hotels Private Limited	8	5
<b>Total</b>	<b>49</b>	<b>44</b>
(xiii) Rent paid/payable to		
<i>Key Management Personnel</i>		
K Satish Reddy	13	13
<i>Relatives of Key Management Personnel</i>		
G Anuradha	12	12
Deepti Reddy	3	3
K Samrajyam	2	2
G Mallika Reddy	2	2
G V Sanjana Reddy	2	2
<b>Total</b>	<b>34</b>	<b>34</b>
(xiv) Salaries to relatives of Key Management Personnel	1	-
(xv) Remuneration to Key Management Personnel		
Salaries and other benefits <sup>(1)</sup>	387	301
Contributions to defined contribution plans	38	28
Commission to directors	153	212
Share-based payments expense	116	76
<b>Total</b>	<b>694</b>	<b>617</b>

<sup>(1)</sup> In addition to the above, the Company has accrued ₹ Nil and ₹ 79 towards a long-term incentive plan for the services rendered by Key Management Personnel during the year ended 31 March 2018 and 31 March 2017, respectively.

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

(xvi) Investment made/(disposed) in		
<i>Subsidiaries</i>		
Regkinetics Services Limited	200	-
Reddy Pharma Iberia SA	(566)	-
Cheminor Investments Limited	.*	-
Idea2Enterprises (India) Private Limited	-	90
Dr. Reddy's Farmaceutica Do Brasil Ltda.	-	33
Imperial Credit Private Limited	-	31
DRL Impex Limited	-	(660)
Reddy Cheminor S.A.	-	(1)
<b>Total</b>	<b>(366)</b>	<b>(507)</b>
<i>*Rounded off to millions.</i>		
<i>Joint ventures</i>		
DRSS Solar Power limited (liquidated during the year)	.*	-
DRES Energy Private Limited	-	83
<b>Total</b>	<b>.*</b>	<b>83</b>
<i>*Rounded off to millions.</i>		
(xvii) Impairment/(reversal of impairment) in the value of non-current investments		
<i>Subsidiaries</i>		
Reddy Antilles N.V.	52	-
Reddy Pharma Iberia SA	(566)	-
Dr. Reddy's Farmaceutica Do Brasil Ltda.	(12)	-
DRL Impex Limited	-	(660)
<b>Total</b>	<b>(526)</b>	<b>(660)</b>
<i>Joint ventures</i>		
DRSS Solar Power limited (liquidated during the year)	.*	-
<b>Total</b>	<b>.*</b>	<b>-</b>
<i>*Rounded off to millions.</i>		

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO FINANCIAL STATEMENTS

## 2.21 RELATED PARTIES (CONTINUED)

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
(xviii) Proceeds on disposal of investments from		
Dr. Reddy's Laboratories SA*	224	-
<i>*Sale of investment in Reddy Pharma Iberia SA</i>		
Idea2Enterprises (India) Private. Limited**	-	99
<i>**Sale of investment in DRL Impex Limited</i>		
<b>Total</b>	<b>224</b>	<b>99</b>
(xix) Loans and advances given/(repaid by) subsidiaries and step down subsidiaries, net		
Industrias Quimicas Falcon de Mexico S.A. de C.V.	10	(63)
Dr. Reddy's Farmaceutica Do Brasil Ltda.	(74)	70
DRL Impex Limited	-	(99)
<b>Total</b>	<b>(64)</b>	<b>(92)</b>
Loans given/(repaid by) is inclusive of accrued interest		
(xx) Provision made/(reversed) on loans given to subsidiaries		
Reddy Antilles N.V.	179	-
Dr. Reddy's Farmaceutica Do Brasil Ltda.	(246)	-
DRL Impex Limited	-	(10)
<b>Total</b>	<b>(67)</b>	<b>(10)</b>
(xxi) Provision made for other assets - Reddy Antilles N.V.	19	-
(xxii) Guarantee given/(released) on behalf of Dr. Reddy's Laboratories SA	16,294	-

### e) The Company has the following amounts due from/to related parties:

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
(i) Due from related parties		
<i>Subsidiaries including step down subsidiaries (included in trade receivables)</i>		
Dr. Reddy's Laboratories Inc.	21,082	24,674
OOO Dr. Reddy's Laboratories Limited	6,156	6,165
Others	10,689	10,622
<b>Total</b>	<b>37,927</b>	<b>41,461</b>
<i>Others</i>		
Greenpark Hospitality Services Private Limited	40	40
Rental deposit to Key Management Personnel and their relatives	8	8
<b>Total</b>	<b>48</b>	<b>48</b>
(ii) Provision outstanding at the end of the year towards dues from subsidiaries including step down subsidiaries (included in trade receivables)		
Dr. Reddy's Venezuela, C.A.	3,474	3,456
Others	92	103
<b>Total</b>	<b>3,566</b>	<b>3,559</b>
(iii) Due to related parties (included in trade payables and other current liabilities)		
<i>Subsidiaries including step down subsidiaries and other consolidating entities</i>		
OOO Dr. Reddy's Laboratories Limited	2,457	1,990
Dr. Reddy's Laboratories Inc.	713	1,274
Dr. Reddy's Research and Development B.V.	209	237
Dr. Reddy's Laboratories (EU) Limited	174	33
Others	601	574
<b>Total</b>	<b>4,154</b>	<b>4,108</b>
<i>Others</i>		
Dr. Reddy's Institute of Life Sciences	10	9
Greenpark Hospitality Services Private Limited	3	-
Green Park Hotels & Resorts Limited	1	*
Stamlo Hotels Private Limited	.*	-
<b>Total</b>	<b>14</b>	<b>9</b>
<i>*Rounded off to millions.</i>		

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO FINANCIAL STATEMENTS

## 2.21 RELATED PARTIES (CONTINUED)

Equity held in subsidiaries and joint venture has been disclosed under "Financial assets-Investments" (Note 2.3 A). Loans and advances to subsidiaries and joint venture have been disclosed under "Loans" (Note 2.3 C). Other receivables from subsidiaries and joint venture have been disclosed under "Other financial assets" (Note 2.3 D).

## 2.22 BUY-BACK OF EQUITY SHARES

The Board of Directors of the Company, in their meeting held on 17 February 2016, approved a proposal to buy back equity shares of the Company, subject to approval by the Company's shareholders, for an aggregate amount not exceeding ₹ 15,694 and at a price not exceeding ₹ 3,500 per equity share. The plan involved the purchase of such shares from shareholders of the Company (including persons who become shareholders by cancelling American Depository Shares and receiving underlying equity shares, and excluding the promoters and promoter group of the Company) under the open market route in accordance with the provisions contained in the Securities and Exchange Board of India (Buy Back of Securities) Regulations, 1998 and the Companies Act, 2013 and rules made thereunder. The shares bought back under this plan were required to be extinguished in accordance with the provisions of the Securities and Exchange Board of India (Buy Back of Securities) Regulations, 1998 and the Companies Act, 2013 and rules made thereunder.

The Company's shareholders approved the buy-back plan on 1 April 2016, and implementation of the buy-back plan commenced on 18 April 2016 and ended on 28 June 2016.

Under this plan, the Company bought back and extinguished 5,077,504 equity shares for an aggregate purchase price of ₹ 15,694 during the year ended 31 March 2017. The aggregate face value of the equity shares bought back was ₹ 25.

## 2.23 DETAILS OF CASH TRANSACTIONS

Details of cash transactions during the period 8 November 2016 to 30 December 2016 is as follows:

PARTICULARS	All amounts in absolute ₹		
	SPECIFIED BANK NOTES*	OTHERS	TOTAL
Closing cash on hand as on 8 November 2016	722,000	474,078	1,196,078
Permitted receipts	-	198,500	198,500
Permitted payments	(62,000)	(136,336)	(198,336)
Amount deposited in bank	(660,000)	-	(660,000)
Closing cash in hand as on 30 December 2016	-	536,242	536,242

\* Specified bank notes includes currency notes of denomination ₹ 1000 and ₹ 500.

## 2.24 EMPLOYEE STOCK INCENTIVE PLANS

Dr. Reddy's Employees Stock Option Plan -2002 (the "DRL 2002 Plan"):

The Company instituted the DRL 2002 Plan for all eligible employees pursuant to 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"). The Nomination, Governance and Compensation Committee of the Board of DRL (the "Committee") administer the DRL 2002 Plan and grants stock options to eligible employees. The Committee determines which eligible employees will receive 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 grant. The options issued under the DRL 2002 Plan vest in periods ranging between one and four years and generally have a maximum contractual term of five years.

The DRL 2002 Plan, as amended at Annual General Meetings of shareholders held on 28 July 2004 and on 27 July 2005, provides for stock option grants in two categories:

Category A: 300,000 stock options out of the total of 2,295,478 options reserved for grant 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 options reserved for grant having an exercise price equal to the par value of the underlying equity shares (i.e., ₹ 5 per option).

Under the DRL 2002 Plan, the exercise price of the fair market value options granted under Category A above is determined based on the average closing price for 30 days prior to the grant in the stock exchange where there is highest trading volume during that period. Notwithstanding the foregoing, the 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)

# NOTES TO FINANCIAL STATEMENTS

## 2.24 EMPLOYEE STOCK INCENTIVE PLANS (CONTINUED)

After the stock split effected in the form of stock dividend issued by the Company in August 2006, the DRL 2002 Plan provides for stock option grants in the above two categories as follows:

PARTICULARS	NUMBER OF OPTIONS RESERVED UNDER CATEGORY A	NUMBER OF OPTIONS RESERVED UNDER CATEGORY B	TOTAL
Options reserved under original plan	300,000	1,995,478	2,295,478
Options exercised prior to stock dividend date (A)	94,061	147,793	241,854
Balance of shares that can be allotted on exercise of options (B)	205,939	1,847,685	2,053,624
Options arising from stock dividend (C)	205,939	1,847,685	2,053,624
Options reserved after stock dividend (A+B+C)	<b>505,939</b>	<b>3,843,163</b>	<b>4,349,102</b>

Stock option activity under the DRL 2002 Plan for the two categories of options during the years ended 31 March 2018 and 31 March 2017 is as follows:

### Category A – Fair Market Value Options:

There was no stock options activity under this category during the year 31 March 2018 and 31 March 2017 and there were no options outstanding under this category as of 31 March 2018 and 31 March 2017.

Category B – Par Value Options	FOR THE YEAR ENDED 31 MARCH 2018			
	SHARES ARISING OUT OF OPTIONS	RANGE OF EXERCISE PRICES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING USEFUL LIFE (MONTHS)
Outstanding at the beginning of the period	330,142	5.00	5.00	69
Granted during the period	158,112	5.00	5.00	90
Expired/forfeited during the period	(23,318)	5.00	5.00	-
Exercised during the period	(144,392)	5.00	5.00	-
Outstanding at the end of the period	<b>320,544</b>	<b>5.00</b>	<b>5.00</b>	<b>70</b>
Exercisable at the end of the period	<b>47,383</b>	<b>5.00</b>	<b>5.00</b>	<b>49</b>

Category B – Par Value Options	FOR THE YEAR ENDED 31 MARCH 2017			
	SHARES ARISING OUT OF OPTIONS	RANGE OF EXERCISE PRICES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING USEFUL LIFE (MONTHS)
Outstanding at the beginning of the period	427,348	5.00	5.00	72
Granted during the period	103,136	5.00	5.00	90
Expired/forfeited during the period	(22,597)	5.00	5.00	-
Exercised during the period	(177,745)	5.00	5.00	-
Outstanding at the end of the period	<b>330,142</b>	<b>5.00</b>	<b>5.00</b>	<b>69</b>
Exercisable at the end of the period	<b>40,882</b>	<b>5.00</b>	<b>5.00</b>	<b>38</b>

The weighted average grant date fair value of par value options granted under category B above of the DRL 2002 Plan during the years ended 31 March 2018 and 31 March 2017 was ₹ 2,546 and ₹ 3,266 per option, respectively. The weighted average share price on the date of exercise of options during the years ended 31 March 2018 and 31 March 2017 was ₹ 2,375 and ₹ 3,292 per share, respectively.

The aggregate intrinsic value of options exercised under the DRL 2002 Plan during the years ended 31 March 2018 and 31 March 2017 was ₹ 342 and ₹ 584, respectively. As of 31 March 2018, options outstanding under the DRL 2002 Plan had an aggregate intrinsic value of ₹ 665 and options exercisable under the DRL 2002 Plan had an aggregate intrinsic value of ₹ 98.

The term of the DRL 2002 plan was extended for a period of 10 years effective as of 29 January 2012 by the shareholders at the Company's Annual General Meeting held on 20 July 2012.

### 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 became effective upon its approval by the Board of Directors on 22 January 2007. The DRL 2007 Plan covers all employees and directors (excluding promoter directors) of DRL and its subsidiaries (collectively, "eligible employees"). The Committee administers the DRL 2007 Plan and grants stock options to eligible employees. The Committee determines which eligible employees will receive 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 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.



(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO FINANCIAL STATEMENTS

## 2.24 EMPLOYEE STOCK INCENTIVE PLANS (CONTINUED)

The DRL 2007 Plan provides for option grants in two categories:

Category A: 382,695 stock options out of the total of 1,530,779 stock options reserved for grant having an exercise price equal to the fair market value of the underlying equity shares on the date of grant; and

Category B: 1,148,084 stock options out of the total of 1,530,779 stock options reserved for grant having an exercise price equal to the par value of the underlying equity shares (i.e., ₹ 5 per option).

Stock option activity under the DRL 2007 Plan for the two categories of options during the years ended 31 March 2018 and 31 March 2017 is as follows:

### Category A – Fair Market Value Options:

There were no options outstanding under this category as of 31 March 2018 and 31 March 2017.

Category B – Par Value Options	FOR THE YEAR ENDED 31 MARCH 2018			
	SHARES ARISING OUT OF OPTIONS	RANGE OF EXERCISE PRICES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING USEFUL LIFE (MONTHS)
Outstanding at the beginning of the period	88,141	5.00	5.00	74
Granted during the period	63,304	5.00	5.00	90
Expired/forfeited during the period	(19,335)	5.00	5.00	-
Exercised during the period	(24,802)	5.00	5.00	-
<b>Outstanding at the end of the period</b>	<b>107,308</b>	<b>5.00</b>	<b>5.00</b>	<b>73</b>
<b>Exercisable at the end of the period</b>	<b>11,034</b>	<b>5.00</b>	<b>5.00</b>	<b>47</b>

Category B – Par Value Options	FOR THE YEAR ENDED 31 MARCH 2017			
	SHARES ARISING OUT OF OPTIONS	RANGE OF EXERCISE PRICES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING USEFUL LIFE (MONTHS)
Outstanding at the beginning of the period	92,043	5.00	5.00	79
Granted during the period	52,956	5.00	5.00	90
Expired/forfeited during the period	(23,039)	5.00	5.00	-
Exercised during the period	(33,819)	5.00	5.00	-
<b>Outstanding at the end of the period</b>	<b>88,141</b>	<b>5.00</b>	<b>5.00</b>	<b>74</b>
<b>Exercisable at the end of the period</b>	<b>6,517</b>	<b>5.00</b>	<b>5.00</b>	<b>43</b>

The weighted average grant date fair value of par value options granted under category B of the DRL 2007 Plan during the years ended 31 March 2018 and 31 March 2017 was ₹ 2,540 and ₹ 3,266, respectively. The weighted average share price on the date of exercise of options during the years ended 31 March 2018 and 31 March 2017 was ₹ 2,295 and ₹ 3,268, respectively.

The aggregate intrinsic value of options exercised under the DRL 2007 Plan during the years ended 31 March 2018 and 31 March 2017 was ₹ 57 and ₹ 110, respectively. As of 31 March 2018, options outstanding under the DRL 2007 Plan had an aggregate intrinsic value of ₹ 223 and options exercisable under the DRL 2007 Plan had an aggregate intrinsic value of ₹ 23.

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

### Valuation of stock options:

The fair value of stock options granted under the DRL 2002 Plan and the DRL 2007 Plan has been measured using the Black-Scholes-Merton model at the date of the grant.

The Black-Scholes-Merton model includes assumptions regarding dividend yields, expected volatility, expected terms and risk free interest rates. In respect of par value options granted under category B, the expected term of an option (or "option life") is estimated based on the vesting term, contractual term, as well as expected exercise behavior of the employees receiving the option. In respect of fair market value options granted under category A, the option life is estimated based on the simplified method. Expected volatility of the option is based on historical volatility, during a period equivalent to the option life, of the observed market prices of the Company's publicly traded equity shares. Dividend yield of the options is based on recent dividend activity. Risk-free interest rates are based on the government securities yield in effect at the time of the grant. These assumptions reflect management's best estimates, but these assumptions involve inherent market uncertainties based on market conditions generally outside of the Company's control. As a result, if other assumptions had been used in the current period, stock-based compensation expense could have been materially impacted. Further, if management uses different assumptions in future periods, stock-based compensation expense could be materially impacted in future years.

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO FINANCIAL STATEMENTS

## 2.24 EMPLOYEE STOCK INCENTIVE PLANS (CONTINUED)

The estimated fair value of stock options is charged to income on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in-substance, multiple awards.

The weighted average inputs used in computing the fair value of options granted were as follows:

PARTICULARS	GRANTS MADE ON				
	10 JULY 2017	11 MAY 2017	15 NOVEMBER 2016	20 SEPTEMBER 2016	26 JULY 2016
Expected volatility	30.86%	31.08%	32.77%	32.92%	29.88%
Exercise price	₹ 5.00	₹ 5.00	₹ 5.00	₹ 5.00	₹ 5.00
Option life	2.5 Years	2.5 Years	2.5 Years	2.5 Years	2.5 Years
Risk-free interest rate	6.48%	6.69%	6.27%	6.81%	6.91%
Expected dividends	0.77%	0.77%	0.60%	0.60%	0.60%
Grant date share price	₹ 2,726.20	₹ 2,594.00	₹ 3,310.70	₹ 3,157.80	₹ 3,319.65

The fair value of services received in return for stock options granted to employees is measured by reference to the fair value of stock options granted.

### Equity settled share-based payment expense

For the years ended 31 March 2018 and 31 March 2017, the Company recorded employee share-based payment expense of ₹ 454 and ₹ 350, respectively. As of 31 March 2018, there was ₹ 313 of total unrecognised compensation cost related to unvested stock options. This cost is expected to be recognised over a weighted-average period of 1.98 years.

### Cash settled share-based payment expense

Certain of the Company's employees are eligible for share-based payment awards that are settled in cash. These awards entitle the employees to a cash payment, on the exercise date, upon satisfaction of certain service conditions which range from one to four years. The amount of cash payment is determined based on the price of the Company's ADS at the time of exercise. For the years ended 31 March 2018 and 31 March 2017, the Company recorded cash settled share-based payment expense of ₹ 0 and ₹ 22, respectively. As of 31 March 2018, there was ₹ 14 of total unrecognised compensation cost related to unvested awards. This cost is expected to be recognised over a weighted-average period of 1.94 years. This Scheme does not involve dealing in or subscribing to or purchasing securities of the Company, directly or indirectly.

## 2.25 EMPLOYEE BENEFITS

### Gratuity benefits provided by the Company

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

The components of gratuity cost recognised in the statement of profit and loss for the years ended 31 March 2018 and 31 March 2017 consist of the following:

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Current service cost	252	221
Interest on net defined benefit liability, net	6	14
Gratuity cost recognised in statement of profit and loss	258	235

Details of the employee benefits obligations and plan assets are provided below:

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Present value of funded obligations	2,007	1,840
Fair value of plan assets	(1,958)	(1,687)
Net defined benefit liability recognised	49	153

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO FINANCIAL STATEMENTS

## 2.25 EMPLOYEE BENEFITS (CONTINUED)

Details of changes in the present value of defined benefit obligations are as follows:

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Defined benefit obligations at the beginning of the year	1,840	1,540
Current service cost	252	221
Interest on defined obligations	125	114
Re-measurements due to:		
Actuarial loss/(gain) due to change in financial assumptions	(121)	30
Actuarial loss/(gain) due to demographic assumptions	11	(12)
Actuarial loss/(gain) due to experience changes	62	62
Benefits paid	(162)	(115)
Defined benefit obligations at the end of the year	2,007	1,840

Details of changes in the fair value of plan assets are as follows:

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Fair value of plan assets at the beginning of the year	1,687	1,303
Employer contributions	313	348
Interest on plan assets	121	99
Re-measurements due to:		
Return on plan assets excluding interest on plan assets	(1)	52
Benefits paid	(162)	(115)
Plan assets at the end of the year	1,958	1,687

Sensitivity analysis:

PARTICULARS	AS AT 31 MARCH 2018
Defined benefit obligation without effect of projected salary growth	1,167
Add: Effect of salary growth	840
Defined benefit obligation with projected salary growth	2,007
Defined benefit obligation, using discount rate minus 50 basis points	2,082
Defined benefit obligation, using discount rate plus 50 basis points	1,936
Defined benefit obligation, using salary growth rate plus 50 basis points	2,081
Defined benefit obligation, using salary growth rate minus 50 basis points	1,937

Summary of the actuarial assumptions: The actuarial assumptions used in accounting for the Gratuity Plan are as follows:

*The assumptions used to determine benefit obligations:*

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Discount rate	7.75%	7.20%
Rate of compensation increase	7% per annum for first year and 9% per annum thereafter	7% per annum for first year and 9% per annum thereafter

*The assumptions used to determine gratuity cost:*

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Discount rate	7.20%	7.80%
Rate of compensation increase	7% per annum for first year and 9% per annum thereafter	10% per annum for first 2 years and 9% per annum thereafter

Contributions: The Company expects to contribute ₹ 49 to the Gratuity Plan during the year ending 31 March 2019.

Disaggregation of plan assets: The Gratuity Plan's weighted-average asset allocation at 31 March 2018 and 31 March 2017, by asset category, was as follows:

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Funds managed by insurers	99%	99%
Others	1%	1%

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO FINANCIAL STATEMENTS

## 2.25 EMPLOYEE BENEFITS (CONTINUED)

The expected future cash flows in respect of gratuity as at 31 March 2018 were as follows:

PARTICULARS	AMOUNT
Expected contribution	
During the year ended 31 March 2019	49
Expected future benefit payments	
31 March 2019	244
31 March 2020	219
31 March 2021	212
31 March 2022	208
31 March 2023	208
Thereafter	2,951

### Provident fund benefits

Certain categories of employees of the Company receive benefits from a provident fund, a defined contribution plan. Both the employee and employer each make monthly contributions to a government administered fund equal to 12% of the covered employee's qualifying salary. The Company has no further obligations under the plan beyond its monthly contributions. The Company contributed ₹ 707 and ₹ 656 to the provident fund plan during the years ended 31 March 2018 and 31 March 2017, respectively.

### Superannuation benefits

Certain categories of employees of the Company participate in superannuation, a defined contribution plan administered by the Life Insurance Corporation of India. The Company makes annual contributions based on a specified percentage of each covered employee's salary. The Company has no further obligations under the plan beyond its annual contributions. The Company contributed ₹ 88 and ₹ 79 to the superannuation plan for the years ended 31 March 2018 and 31 March 2017, respectively.

### Compensated absences

The Company provides for accumulation of compensated absences by certain categories of its employees. These employees can carry forward a portion of the unutilised compensated absences and utilise it in future periods or receive cash in lieu thereof as per the Company's policy. The Company records a liability for compensated absences in the period in which the employee renders the services that increases this entitlement. The total liability recorded by the Company towards this obligation was ₹ 797 and ₹ 746 as at 31 March 2018 and 31 March 2017, respectively.

### Long-term incentive plan

Certain senior management employees of the Company participate in a long-term incentive plan which is aimed at rewarding the individual, based on performance of such individual, their business unit/function and the Company as a whole, with significantly higher rewards for superior performances. The total liability recorded by the Company towards this benefit was ₹ Nil and ₹ 523 as at 31 March 2018, and 31 March 2017, respectively.

Total employee benefit expenses, including share-based payments, incurred during the years ended 31 March 2018 and 31 March 2017 amounted to ₹ 18,430 and ₹ 18,033, respectively.

## 2.26 INCOME TAXES

### a) Income tax expense/(benefit) recognised in the statement of profit and loss

Income tax expense recognised in the statement of profit and loss consists of the following:

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Current taxes	1,381	1,826
Deferred taxes benefit	(80)	(222)
Total income tax expense recognised in the statement of profit and loss	1,301	1,604

### b) Income tax expense/(benefit) recognised directly in equity

Income tax expense/(benefit) recognised directly in equity consist of the following:

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Tax effect on effective portion of change in fair value of cash flow hedges	(46)	51
Tax effect on actuarial gains/losses on defined benefit obligations	16	(15)
Total income tax expense/(benefit) recognised in the equity	(30)	36

# NOTES TO FINANCIAL STATEMENTS

## 2.26 INCOME TAXES (CONTINUED)

### c) Reconciliation of effective tax rate

The following is a reconciliation of the Company's effective tax rates for the years ended 31 March 2018 and 31 March 2017:

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Profit before income taxes	6,970	15,445
Enacted tax rate in India	34.61%	34.61%
Computed expected tax expense	2,413	5,345
Effect of:		
Unrecognised deferred tax assets	1,417	2,652
Reversal of earlier year's tax provisions	(67)	(1,349)
Income exempt from income taxes	(816)	(445)
Incremental deduction allowed for research and development costs <sup>(1)</sup>	(1,327)	(3,094)
Investment Allowance deduction	-	(363)
Deferred taxes on undistributed earnings of subsidiary outside India	-	(519)
Current taxes on undistributed earnings of subsidiary outside India	-	(521)
Other items	(319)	(102)
<b>Income tax expense</b>	<b>1,301</b>	<b>1,604</b>
<b>Effective tax rate</b>	<b>18.66%</b>	<b>10.39%</b>

<sup>(1)</sup> India's Finance Act, 2016 incorporated an amendment that reduces the weighted deduction on eligible research and development expenditure in a phased manner from 200% to 150% commencing from 1 April 2017.

The Company's average effective tax rate for the years ended 31 March 2018 and 31 March 2017 were 18.66% and 10.39%, respectively. The decrease in the Company's effective tax rate for the year ended 31 March 2017 was primarily due to resolution of certain tax matters pertaining to prior years.

### d) Unrecognised deferred tax assets

The details of unrecognised deferred tax assets are summarised below:

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Deductible temporary differences, net	4,591	3,144
	<b>4,591</b>	<b>3,144</b>

During the year ended 31 March 2018, the Company did not recognise deferred tax assets of ₹ 1,447, primarily on MAT credit entitlement, as the Company believes that availability of taxable profits is not probable. The above MAT credit expire at various dates ranging from 2031 through 2033.

### e) Deferred tax assets and liabilities

The tax effects of significant temporary differences that resulted in deferred tax assets and liabilities and a description of the items that created these differences is given below:

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
<b>Deferred tax assets/(liabilities)</b>		
Minimum Alternate Tax*	1,630	1,636
Trade receivables	1479	1,469
Operating tax loss/capital loss	9	257
Current liabilities and provisions	331	437
Loans	16	29
Property, plant and equipment	(2,518)	(2,517)
Investments	(16)	(490)
<b>Net deferred tax assets</b>	<b>931</b>	<b>821</b>

\* As per Indian tax laws, companies are liable for a Minimum Alternate Tax ("MAT" tax) when current tax, as computed under the provisions of the Income Tax Act, 1961 ("Tax Act"), is determined to be below the MAT tax computed under section 115JB of the Tax Act. The excess of MAT tax over current tax is eligible to be carried forward and set-off in the future against the current tax liabilities over a period of 15 years.

In assessing whether the deferred tax assets will be realised, management considers whether some portion or all of the deferred tax assets will not be realised. The ultimate realisation of the deferred income tax assets and tax loss carry forwards is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. Management considers the scheduled reversals of deferred tax liabilities, projected future taxable income and tax planning strategy in making this assessment. Based on the level of historical taxable income and projections of future taxable income over the periods in which the deferred tax assets are deductible, management believes that the Company will realise the benefits of those recognised deductible differences and tax loss carry forwards. Recoverability of deferred tax assets is based on estimates of future taxable income. Any changes in such future taxable income would impact the recoverability of deferred tax assets.

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO FINANCIAL STATEMENTS

## 2.26 INCOME TAXES (CONTINUED)

Operating loss carry forward mainly consists of unabsorbed depreciation which can be carried forwarded without any restriction on time limit.

### f) Movement in deferred tax assets and liabilities during the years ended 31 March 2018

PARTICULARS	AS AT 1 APRIL 2017	RECOGNISED IN THE STATEMENT OF PROFIT AND LOSS	RECOGNISED IN EQUITY	AS AT 31 MARCH 2018
<b>Deferred tax assets/(liabilities)</b>				
Minimum Alternate Tax	1,636	(6)	-	1,630
Trade receivables	1,469	10	-	1,479
Operating tax loss/capital loss	257	(248)	-	9
Current liabilities and provisions	437	(136)	30	331
Loans	29	(13)	-	16
Property, plant and equipment	(2,517)	(1)	-	(2,518)
Investments	(490)	474	-	(16)
<b>Net deferred tax assets/(liabilities)</b>	<b>821</b>	<b>80</b>	<b>30</b>	<b>931</b>

## 2.27 OTHER INVESTMENTS

Other investments consist of investments in units of mutual funds, bonds, commercial papers and term deposits (except investment in subsidiaries and joint ventures and other unquoted equity securities). The details of such investments as of 31 March 2018 are as follows:

PARTICULARS	COST	GAIN RECOGNISED DIRECTLY IN EQUITY	GAIN RECOGNISED DIRECTLY IN STATEMENT OF PROFIT AND LOSS	FAIR VALUE/ AMORTISED COST*
<b>Current portion</b>				
Investment in units of mutual funds	13,284	-	33	13,317
Investment in bonds	3,279	-	-	3,279
Investment in commercial paper	232	-	-	232
	<b>16,795</b>	<b>-</b>	<b>33</b>	<b>16,828</b>
<b>Non-current portion</b>				
Investment in bonds	1,354	-	-	1,354
Investment in equity securities	3	27	-	30
	<b>1,357</b>	<b>27</b>	<b>-</b>	<b>1,384</b>
<b>Total</b>	<b>18,152</b>	<b>27</b>	<b>33</b>	<b>18,212</b>

As of 31 March 2017, the details of such investments were as follows:

PARTICULARS	COST	GAIN RECOGNISED DIRECTLY IN EQUITY	GAIN RECOGNISED DIRECTLY IN STATEMENT OF PROFIT AND LOSS	FAIR VALUE/ AMORTISED COST*
<b>Current portion</b>				
Investment in units of mutual funds	9,464	-	1,417	10,881
Investment in term deposits with banks	2,110	-	-	2,110
	<b>11,574</b>	<b>-</b>	<b>1,417</b>	<b>12,991</b>
<b>Non-current portion</b>				
Investment in equity securities	3	32	-	35
	<b>3</b>	<b>32</b>	<b>-</b>	<b>35</b>
<b>Total</b>	<b>11,577</b>	<b>32</b>	<b>1,417</b>	<b>13,026</b>

\* Interest accrued but not due on bonds, commercial paper and term deposits with banks is included in other current financial assets.

### Investment in unquoted mutual funds (Refer note 2.3 A)

FUND NAME	AS AT 31 MARCH 2018		AS AT 31 MARCH 2017	
	UNITS	AMOUNT	UNITS	AMOUNT
Reliance Medium Term Fund - Direct Plan - Growth	90,808,497	3,378	23,140,046	803
Birla Sun Life Savings Fund - Direct Plan - Growth	9,293,802	3,196	-	-
Birla Sun Life Cash Manager - Direct Plan - Growth	4,976,084	2,170	-	-
IDFC Corporate bond Fund - Direct Plan - Growth	129,392,160	1,549	-	-
Axis Treasury Advantage Fund - Direct Plan - Growth	657,309	1,302	-	-
L&T Liquid Fund - Direct Plan - Growth	420,151	1,001	269,122	600

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO FINANCIAL STATEMENTS

## 2.27 OTHER INVESTMENTS (CONTINUED)

FUND NAME	AS AT 31 MARCH 2018		AS AT 31 MARCH 2017	
	UNITS	AMOUNT	UNITS	AMOUNT
Sundaram Banking & PSU Fund - Direct Plan - Growth	25,615,785	701	-	-
SBI Treasury Advantage Fund - Regular plan - Growth	10,409	20	-	-
TATA Money Market Fund - Direct Plan - Growth	-	-	470,148	1,205
Birla Sun Life Treasury Optimizer Plan - Direct Plan - Growth	-	-	5,645,005	1,187
Reliance FRF - Short-term - Direct Plan - Growth	-	-	41,882,359	1,101
IDFC SSIF MTP - Direct Plan - Growth	-	-	34,380,316	982
Axis Short-term Fund - Direct Plan - Growth	-	-	41,901,856	771
IDFC Super Saver Income Fund - Short-term Plan - Growth	-	-	19,461,900	668
Birla SL Short-term Fund - Direct Plan - Growth	-	-	9,658,402	604
HSBC Income Fund Short-term Plan - Direct Plan - Growth	-	-	21,501,955	601
ICICI Prudential Flexible income - Direct Plan - Growth	-	-	1,919,547	600
HDFC Short-term Opportunities Fund - Direct Plan - Growth	-	-	28,546,552	517
ICICI Prudential Banking & PSU Debt- Direct Plan - Growth	-	-	26,068,852	493
Sundaram Ultra Short-term Direct Plan - Bonus Plan	-	-	29,038,263	377
Reliance Short-term Fund - Direct Plan - Growth	-	-	11,772,000	372
<b>Total</b>	<b>261,174,197</b>	<b>13,317</b>	<b>295,656,323</b>	<b>10,881</b>

## 2.28 OPERATING LEASES

The Company has leased office space and vehicles under various operating lease agreements that are renewable on a periodic basis at the option of both the lessor and the lessee. Rental expense under these leases was ₹ 280 and ₹ 297 for the years ended 31 March 2018 and 31 March 2017, respectively.

The schedule of future minimum rental payments in respect of non-cancellable operating leases is set out below:

PARTICULARS	AS AT	AS AT
	31 MARCH 2018	31 MARCH 2017
Less than one year	128	107
Between one and five years	148	122
<b>Total</b>	<b>276</b>	<b>229</b>

## 2.29 FINANCE LEASE

There are no assets taken on finance lease as on 31 March 2018.

As on 31 March 2017, the Company had vehicles on finance lease.

The future minimum lease payments and their present values as at 31 March 2017 were as follows:

PARTICULARS	PRESENT VALUE OF MINIMUM LEASE PAYMENTS	FUTURE INTEREST	FUTURE MINIMUM LEASE PAYMENTS
Not later than one year	1	.*	1
Later than one year and not later than five years	-	-	-
<b>Total</b>	<b>1</b>	<b>.*</b>	<b>1</b>

\*Rounded off to millions.

## 2.30 FINANCIAL INSTRUMENTS

Set out below, is a comparison by class of the carrying amounts and fair value of the Company's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

PARTICULARS	CARRYING VALUE		FAIR VALUE/AMORTISED COST	
	31 MARCH 2018	31 MARCH 2017	31 MARCH 2018	31 MARCH 2017
<b>Financial assets</b>				
Cash and cash equivalents	1,207	668	1,207	668
Investments*	36,365	31,019	36,365	31,019
Trade receivables	42,207	44,260	42,207	44,260
Loans	1,991	1,932	1,991	1,932
Derivative instruments	17	220	17	220
Other financial assets	946	1,299	946	1,299
<b>Total</b>	<b>82,733</b>	<b>79,398</b>	<b>82,733</b>	<b>79,398</b>

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO FINANCIAL STATEMENTS

## 2.30 FINANCIAL INSTRUMENTS (CONTINUED)

PARTICULARS	CARRYING VALUE		FAIR VALUE/AMORTISED COST	
	31 MARCH 2018	31 MARCH 2017	31 MARCH 2018	31 MARCH 2017
<b>Financial liabilities</b>				
Trade payables	10,610	7,787	10,610	7,787
Long-term borrowings	4,880	4,852	4,880	4,852
Short-term borrowings	21,008	18,699	21,008	18,699
Derivative instruments	85	6	85	6
Other financial liabilities	11,386	11,550	11,386	11,550
<b>Total</b>	<b>47,969</b>	<b>42,894</b>	<b>47,969</b>	<b>42,894</b>

\* Interest accrued but not due on investments is included in other financial assets.

### Fair value hierarchy

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

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

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

The following table presents the fair value hierarchy of assets and liabilities measured at fair value on a recurring basis as of 31 March 2018:

PARTICULARS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
FVTPL - Financial asset - Investments in units of mutual funds	13,317	-	-	13,317
FVTOCI - Financial asset - Investment in equity securities	30	-	-	30
Derivative financial instruments - gain/(loss) on outstanding foreign exchange forward, option and swap contracts and interest rate swap contracts <sup>(1)</sup>	-	(67)	-	(67)

The following table presents the fair value hierarchy of assets and liabilities measured at fair value on a recurring basis as of 31 March 2017:

PARTICULARS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
FVTPL - Financial asset - Investments in units of mutual funds	10,881	-	-	10,881
FVTOCI - Financial asset - Investment in equity securities	35	-	-	35
Derivative financial instruments - gain/(loss) on outstanding foreign exchange forward, option and swap contracts and interest rate swap contracts <sup>(1)</sup>	-	214	-	214

<sup>(1)</sup> The Company enters into derivative financial instruments with various counterparties, principally financial institutions and banks. Derivatives valued using valuation techniques with market observable inputs are mainly interest rate swaps, foreign exchange forward option and swap contracts. The most frequently applied valuation techniques include forward pricing, swap models and Black-Scholes-Merton models (for option valuation), using present value calculations. The models incorporate various inputs including foreign exchange forward rates, interest rate curves and forward rate curves.

As at 31 March 2018, the changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognised at fair value.

### Derivative financial instruments

The Company had a derivative financial asset and derivative financial liability of ₹ 17 and ₹ 85, respectively, as at 31 March 2018 as compared to derivative financial asset and derivative financial liability of ₹ 220 and ₹ 6, respectively, as at 31 March 2017 towards these derivative financial instruments.

### Details of gain/(loss) recognised in respect of derivative contracts

The following table presents details in respect of the gain/(loss) recognised in respect of derivative contracts during the applicable year ended:

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Net gain recognised as part of foreign exchange gain and losses in respect of foreign exchange derivative contracts	491	945
Net gain/(loss) recognised in equity in respect of hedges of highly probable forecast transactions	(133)	145
Net gain/(loss) recognised as component of revenue	653	136

The net carrying amount of the Company's "hedging reserve" as a component of equity before adjusting for tax impact was a loss of ₹ 4 as at 31 March 2018, as compared to a gain of ₹ 129 as at 31 March 2017.



(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO FINANCIAL STATEMENTS

## 2.30 FINANCIAL INSTRUMENTS (CONTINUED)

Outstanding foreign exchange derivative contracts

The following table gives details in respect of the notional amount of outstanding foreign exchange derivative contracts as of 31 March 2018:

					Amounts in millions
CATEGORY	INSTRUMENT	CURRENCY	CROSS CURRENCY <sup>(1)</sup>	AMOUNTS	BUY/SELL
Hedges of recognised assets and liabilities	Forward contract	US\$	INR	US\$ 72	Sell
	Forward contract	US\$	RUB	US\$ 14	Buy
	Option contract	US\$	INR	US\$ 65	Sell
Hedges of highly probable forecasted transactions	Forward contract	RUB	INR	RUB 1080	Sell
	Option contract	US\$	INR	US\$ 240	Sell

The following table gives details in respect of the notional amount of outstanding foreign exchange derivative contracts as of 31 March 2017:

					Amounts in millions
CATEGORY	INSTRUMENT	CURRENCY	CROSS CURRENCY <sup>(1)</sup>	AMOUNTS	BUY/SELL
Hedges of recognised assets and liabilities	Forward contract	US\$	INR	US\$ 194	Sell
	Option contract	US\$	INR	US\$ 80	Sell
Hedges of highly probable forecasted transactions	Forward contract	RUB	INR	RUB 150	Sell
	Option contract	US\$	INR	US\$ 180	Sell

<sup>(1)</sup> "INR" means Indian Rupees and "RUB" means Russian roubles.

The table below summarises the periods when the cash flows associated with highly probable forecasted transactions that are classified as cash flow hedges are expected to occur:

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
<b>Cash flows in US\$</b>		
Not later than one month	1,955	973
Later than one month and not later than three months	3,911	1,946
Later than three months and not later than six months	5,866	2,918
Later than six months and not later than one year	3,910	5,837
	<b>15,642</b>	<b>11,674</b>
<b>Cash flows in Russian Roubles</b>		
Not later than one month	102	57
Later than one month and not later than three months	204	115
Later than three months and not later than six months	306	-
Later than six months and not later than one year	611	-
	<b>1,223</b>	<b>172</b>

Hedges of changes in the interest rates:

Consistent with its risk management policy, the Company uses interest rate swaps (including cross currency interest rate swaps) to mitigate the risk of changes in interest rates. The Company does not use them for trading or speculative purposes.

The changes in fair value of such interest rate swaps (including cross currency interest rate swaps) are recognised as part of finance cost.

As at 31 March 2018 and 31 March 2017, the Company had no outstanding interest rate swap arrangements.

## 2.31 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 minimise 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 analyse 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 the Company's risk assessment and management policies and processes.

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO FINANCIAL STATEMENTS

## 2.31 FINANCIAL RISK MANAGEMENT (CONTINUED)

### a) Market risk

Market risk is the risk of loss of future earnings, fair values or future cash flows that may result from adverse changes in market rates and prices (such as interest rates, foreign currency exchange rates and commodity prices) or in the price of market risk-sensitive instruments as a result of such adverse changes in market rates and prices. Market risk is attributable to all market risk-sensitive financial instruments, all foreign currency receivables and payables and all short-term 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 foreign exchange risk arises from its foreign operations, foreign currency revenues and expenses, (primarily in US\$, Russian roubles, Ukrainian hryvnias, UK pounds sterling, and Euros) and foreign currency borrowings (in US\$ and Russian roubles). 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 Indian 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 both derivative and non-derivative financial instruments, such as foreign exchange forward contracts, option contracts, currency swap contracts and foreign currency financial liabilities, to mitigate the risk of changes in foreign currency exchange rates in respect of its highly probable forecast transactions and recognised assets and liabilities.

The details in respect of the outstanding foreign exchange forward and option contracts are given in note 2.30 above.

In respect of the Company's forward contracts and option contracts, a 10% decrease/increase in the respective exchange rates of each of the currencies underlying such contracts would have resulted in:

- a ₹ 1,277/(1,338) increase/(decrease) in the Company's hedging reserve and a ₹ 843/(749) increase/(decrease) in the Company's net profit from such contracts, as at 31 March 2018;
- a ₹ 1,154/(710) increase/(decrease) in the Company's hedging reserve and a ₹ 1,707/(1,854) increase/(decrease) in the Company's net profit from such contracts, as at 31 March 2017.

The following table analyses foreign currency risk from non-derivative financial instruments as at 31 March 2018:

PARTICULARS	All figures in equivalent Indian Rupees millions				
	US\$	EURO	RUSSIAN ROUBLES	OTHERS <sup>(1)</sup>	TOTAL
<b>Assets</b>					
Cash and cash equivalents	35	9	-	29	73
Trade receivables	30,089	441	6,541	2,597	39,668
Other financial assets	357	102	10	1,669	2,138
<b>Total</b>	<b>30,481</b>	<b>552</b>	<b>6,551</b>	<b>4,295</b>	<b>41,879</b>
<b>Liabilities</b>					
Trade payables	1,664	925	-	193	2,782
Long-term borrowings	4,880	-	-	-	4,880
Short-term borrowings	17,923	-	1,585	-	19,508
Other financial liabilities	2,449	266	2,505	102	5,322
<b>Total</b>	<b>26,916</b>	<b>1,191</b>	<b>4,090</b>	<b>295</b>	<b>32,492</b>

The following table analyses foreign currency risk from non-derivative financial instruments as at 31 March 2017:

PARTICULARS	All figures in equivalent Indian Rupees millions				
	US\$	EURO	RUSSIAN ROUBLES	OTHERS <sup>(1)</sup>	TOTAL
<b>Assets</b>					
Cash and cash equivalents	66	16	9	139	230
Trade receivables	32,837	875	6,158	2,363	42,233
Other financial assets	823	21	3	1,604	2,451
<b>Total</b>	<b>33,726</b>	<b>912</b>	<b>6,170</b>	<b>4,106</b>	<b>44,914</b>
<b>Liabilities</b>					
Trade payables	773	285	-	255	1,313
Long-term borrowings	4,852	-	-	-	4,852
Short-term borrowings	12,970	-	2,528	-	15,498
Other financial liabilities	2,236	263	2,005	91	4,595
<b>Total</b>	<b>20,831</b>	<b>548</b>	<b>4,533</b>	<b>346</b>	<b>26,258</b>

<sup>(1)</sup> Others include currencies such as Mexican pesos, UK pounds sterling and Swiss francs.

# NOTES TO FINANCIAL STATEMENTS

## 2.31 FINANCIAL RISK MANAGEMENT (CONTINUED)

For the years ended 31 March 2018 and 31 March 2017, every 10% depreciation/appreciation in the exchange rate between the Indian rupee and the respective currencies for the above mentioned financial assets/liabilities would affect the Company's net profit by ₹ 939 and ₹ 1,866, respectively.

### Interest rate risk

As of 31 March 2018 and 31 March 2017, the Company had ₹ 22,811 of loans carrying a floating interest rate of 1 Month LIBOR minus 30 bps to 1 Month LIBOR plus 82.7 bps and ₹ 18,061 of loans carrying a floating interest rate of 1 Month LIBOR minus 30 bps to 1 Month LIBOR plus 82.7 bps, respectively. These loans expose the Company to risk of changes in interest rates. The Company'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.

For details of the Company's short-term and long-term loans and borrowings, including interest rate profiles, refer to note 2.7A and 2.7B of these financial statements.

For the years ended 31 March 2018 and 31 March 2017, every 10% increase or decrease in the floating interest rate component (i.e., LIBOR) applicable to its loans and borrowings would affect the Company's net profit by ₹ 42 and ₹ 23, respectively.

The carrying value of the Company's foreign currency borrowings designated in a cash flow hedge as of 31 March 2018 and 31 March 2017 was ₹ Nil.

The Company's investments in bonds, commercial paper 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. As of 31 March 2018, the Company had not entered into any material derivative contracts to hedge exposure to fluctuations in commodity prices.

### b) 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 and investment securities. 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. The Company establishes an allowance for credit losses and impairment that represents its estimate of expected 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.

### Investments

The Company limits its exposure to credit risk by generally investing in liquid securities and only with counterparties that have a good credit rating. The Company does not expect any losses from non-performance by these counter-parties, and does not have any significant concentration of exposures to specific industry sectors or specific country risks.

### Financial assets that are neither past due nor impaired

None of the Company's cash equivalents, including term deposits (i.e., certificates of deposit) with banks, were past due or impaired as at 31 March 2018. Of the total trade receivables, ₹ 35,390 as at 31 March 2018 and ₹ 31,071 as at 31 March 2017 consisted of customer balances that were neither past due nor impaired.

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO FINANCIAL STATEMENTS

## 2.31 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial assets that are past due

The Company's credit period for customers generally ranges from 20 - 180 days. The ageing of trade receivables that are past due is given below:

PERIOD (IN DAYS)	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
1 - 90	6,436	9,604
90 - 180	545	805
More than 180	3,779	6,718
<b>Total</b>	<b>10,760</b>	<b>17,127</b>
Less: Allowance for credit loss	(3,943)	(3,938)
<b>Net trade receivables</b>	<b>6,817</b>	<b>13,189</b>

The Company uses Expected Credit Loss (ECL) model for assessing the impairment loss. For this purpose, the Company uses a provision matrix to compute the expected credit loss amount for trade receivables. The provision matrix takes into account external and internal credit risk factors and historical data of credit losses from various customers.

### Reconciliation of the allowance for credit losses

The details of changes in allowance for credit losses during the year ended 31 March 2018 and 31 March 2017 are as follows:

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Balance at the beginning of the year	3,938	3,957
Provision made/(reversed) during the year	(12)	110
Trade receivables written off during the year	(1)	(54)
Effect of changes in the foreign exchange rates	18	(75)
<b>Balance at the end of the year</b>	<b>3,943</b>	<b>3,938</b>

The amount of credit loss includes provision for doubtful receivables from Venezuela operations. (Refer note 2.21).

### Loans and advances

Loans and advances are predominantly given to subsidiaries for the purpose of working capital and other business requirements.

The details of changes in provision for doubtful loans and advances during the year ended 31 March 2018 and 31 March 2017 are as follows:

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Balance at the beginning of the year	412	430
Provision made/(reversed) during the year, net	(65)	(10)
Loans and advances written off during the year	-	-
Effect of changes in the foreign exchange rates	(1)	(8)
<b>Balance at the end of the year</b>	<b>346</b>	<b>412</b>

### c) 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.

As at 31 March 2018 and 31 March 2017, the Company had unutilised credit limits from banks of ₹ 14,209 and ₹ 12,437 respectively.

As at 31 March 2018, the Company had working capital of ₹ 43,186, including cash and cash equivalents of ₹ 1,207, investments in bonds of ₹ 3,279, investment in commercial paper of ₹ 232 and investments in FVTPL financial assets of ₹ 13,317. As at 31 March 2017, the Company had working capital of ₹ 43,358, including cash and cash equivalents of ₹ 668, investments in term deposits (i.e., bank certificates of deposits having original maturities of more than 3 months) of ₹ 2,110 and investments in FVTPL financial assets of ₹ 10,881.

The table below provides details regarding the contractual maturities of significant financial liabilities as at 31 March 2018:

PARTICULARS	2019	2020	2021	2022	THEREAFTER	TOTAL
Trade payables	10,610	-	-	-	-	10,610
Long-term borrowings	-	1,627	3,253	-	-	4,880
Short-term borrowings	21,008	-	-	-	-	21,008
Other financial liabilities	11,386	-	-	-	-	11,386
Derivative financial instruments - liabilities	85	-	-	-	-	85

# NOTES TO FINANCIAL STATEMENTS

## 2.31 FINANCIAL RISK MANAGEMENT (CONTINUED)

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 2.29 to these financial statements) as at 31 March 2017:

PARTICULARS	2018	2019	2020	2021	THEREAFTER	TOTAL
Trade payables	7,787	-	-	-	-	7,787
Long-term borrowings	-	-	1,610	3,242	-	4,852
Short-term borrowings	18,699	-	-	-	-	18,699
Other financial liabilities	11,549	-	-	-	-	11,549
Derivative financial instruments - liabilities	6	-	-	-	-	6

## 2.32 CONTINGENT LIABILITIES AND COMMITMENTS

A. Contingent liabilities (claims against the Company not acknowledged as debts)

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

Although there can be no assurance regarding the outcome of any of the legal proceedings or investigations referred to in this Note, the Company does not expect them to have a materially adverse effect on its financial position, as it believes that the likelihood of loss in excess of amounts accrued (if any) is not probable. However, if one or more of such proceedings were to result in judgements against the Company, such judgements could be material to its results of operations in a given period.

### (i) Product and patent related matters

Matters relating to National Pharmaceutical Pricing Authority

#### Norfloxacin, India litigation

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

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

During the year ended 31 March 2006, the Company received a notice from the NPPA demanding the recovery of the price charged by the Company for sales of Norfloxacin in excess of the maximum selling price fixed by the NPPA, which was ₹ 285 including interest. The Company filed a writ petition in the High Court challenging this demand order. The High Court admitted the writ petition and granted an interim order, directing the Company to deposit 50% of the principal amount claimed by the NPPA, which was ₹ 77. The Company deposited this amount with the NPPA in November 2005. In February 2008, the High Court directed the Company to deposit an additional amount of ₹ 30, which was deposited by the Company in March 2008. In November 2010, the High Court allowed the Company's application to include additional legal grounds that the Company believed strengthened its defense against the demand. For example, the Company added as grounds that trade margins should not be included in the computation of amounts overcharged, and that it was necessary for the NPPA to set the active pharmaceutical ingredient price before the process of determining the ceiling on the formulation price. In October 2013, the Company filed an additional writ petition before the Supreme Court challenging the inclusion of Norfloxacin as a "specified product" under the DPCO. In January 2015, the NPPA filed a counter affidavit stating that the inclusion of Norfloxacin was based upon the recommendation of a committee consisting of experts in the field. On 20 July 2016, the Supreme Court remanded the matters concerning the inclusion of Norfloxacin as a "specified product" under the DPCO back to the High Court for further proceedings. During the three months ended 30 September 2016, the Supreme Court dismissed the Special Leave Petition pertaining to the fixing of prices for Norfloxacin formulations.

*(All amounts in Indian Rupees millions, except share data and where otherwise stated)*

# NOTES TO FINANCIAL STATEMENTS

## 2.32 CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

During the three months ended 31 December 2016, a writ petition pertaining to Norfloxacin was filed by the Company with the Delhi High Court. Upon the request of the respondents to file a counter, the Delhi High Court has adjourned the matter to 26 November 2018.

Based on its best estimate, the Company has recorded a provision for potential liability for sale proceeds in excess of the notified selling prices, including the interest thereon, and believes that the likelihood of any further liability that may arise on account of penalties pursuant to this litigation is not probable.

### *Litigation relating to Cardiovascular and Anti-diabetic formulations*

In July 2014, the NPPA, pursuant to the guidelines issued in May 2014 and the powers granted by the Government of India under the Drugs (Price Control) Order, 2013, issued certain notifications regulating the prices for 108 formulations in the cardiovascular and antidiabetic therapeutic areas. The Indian Pharmaceutical Alliance ("IPA"), in which the Company is a member, filed a writ petition in the Bombay High Court challenging the notifications issued by the NPPA on the grounds that they were ultra vires, ex facie and ab initio void. The Bombay High Court issued an order to stay the writ in July 2014. On 26 September 2016, the Bombay High Court dismissed the writ petition filed by the IPA and upheld the validity of the notifications/orders passed by the NPPA in July 2014. Further, on 25 October 2016, the IPA filed a Special Leave Petition with the Supreme Court, which was dismissed by the Supreme Court.

During the three months ended 31 December 2016, the NPPA issued show-cause notices relating to allegations that the Company exceeded the notified maximum prices for 11 of its products. The Company has responded to these notices.

On 20 March 2017, the IPA filed an application before the Bombay High Court for the recall of the judgement of the Bombay High Court dated 26 September 2016. This recall application filed by the IPA was dismissed by the Bombay High Court on 4 October 2017. Further, on 13 December 2017, the IPA filed a Special Leave Petition, with the Supreme Court for the recall of the judgement of the Bombay High Court dated 4 October 2017, which was dismissed by Supreme Court on 10 January 2018.

During the three months ended 31 March 2017, the NPPA issued notices to the Company demanding payments relating to the foregoing products for the allegedly overcharged amounts, along with interest. On 13 July 2017, in response to a writ petition which the Company had filed, the Delhi High Court set aside all the demand notices of the NPPA and directed the NPPA to provide a personal hearing to the Company and pass a speaking order. A personal hearing in this regard was held on 21 July 2017. On 27 July 2017, the NPPA passed a speaking order along with the demand notice directing the Company to pay an amount of ₹ 776. On 3 August 2017, the Company filed a writ petition challenging the speaking order and the demand notice. Upon hearing the matter on 8 August 2017, the Delhi High Court stayed the operation of the demand order and directed the Company to deposit ₹ 100 and furnish a bank guarantee for ₹ 676. Pursuant to the order, the Company deposited ₹ 100 on 13 September 2017 and submitted a bank guarantee of ₹ 676 dated 15 September 2017 to the Registrar General, Delhi High Court. On 22 November 2017, the Delhi High Court directed the Union of India to file a final counter affidavit within six weeks subsequent to which the Company could file a rejoinder. On 10 May 2018, the counter affidavit was filed by the Union of India. The Company subsequently filed a rejoinder and both were taken on record by the Delhi High Court. The matter has been adjourned to 8 August 2018 for hearing.

Based on its best estimate, the Company has recorded a provision of ₹ 416 under "selling and other expenses" as a potential liability for sale proceeds in excess of the notified selling prices, including the interest thereon, and believes that the likelihood of any further liability that may arise on account of penalties pursuant to this litigation is not probable.

However, if the Company is unsuccessful in such litigation, it will be required to remit the sale proceeds in excess of the notified selling prices to the Government of India with interest and could potentially include penalties, which amounts are not readily ascertainable.

### (ii) Civil litigation with Mezzion

On 13 January 2017, Mezzion Pharma Co. Ltd. and Mezzion International LLC (collectively, "Mezzion") filed a complaint in the New Jersey Superior Court against the Company and its wholly owned subsidiary in the United States. The complaint pertains to the production and supply of the active pharmaceutical ingredient ("API") for "udenafil" (a patented compound) and an udenafil finished dosage product during a period from calendar years 2007 to 2015. Mezzion alleges that the Company failed to comply with the U.S. FDA's current Good Manufacturing Practices ("cGMP") at the time of manufacture of the API and finished dosage forms of udenafil and, consequently, that this resulted in a delay in the filing of a NDA for the product by Mezzion. In this regard, the Company filed a motion to dismiss Mezzion's complaint on the technical grounds that the Court lacks jurisdiction over the Company. In January 2018, the Court denied the Company's motion to dismiss the complaint on the jurisdictional matter. Company's interlocutory appeal of the said denial, was also denied.

The Company denies any wrongdoing or liability in this regard, and intends to vigorously defend against the claims asserted in Mezzion's complaint. Any liability that may arise on account of this complaint is unascertainable. Accordingly, no provision was made in the financial statements of the Company.

# NOTES TO FINANCIAL STATEMENTS

## 2.32 CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

### (iii) Shareholder Class Action Litigation

On 25 August 2017, a securities class action lawsuit was filed against the Company, its Chief Executive Officer, and its Chief Financial Officer in the United States District Court for the District of New Jersey. The Company's Co-Chairman, its Chief Operating Officer, and Dr. Reddy's Laboratories, Inc., were also subsequently named as defendants in the case. The operative complaint alleges that the Company made false or misleading statements or omissions in its public filings, in violation of U.S. federal securities laws and that the Company's share price dropped and its investors were affected. On 9 May 2018, the Company and other defendants filed a motion to dismiss the complaint in the United States District Court for the District of New Jersey.

The Company believes that the asserted claims are without merit and intends to vigorously defend itself against the allegations. Any liability that may arise on account of this complaint is unascertainable. Accordingly, no provision was made in the financial statements of the Company.

### (iv) Environmental matters

#### Land pollution

The Indian Council for Environmental Legal Action filed a writ in 1989 under Article 32 of the Constitution of India against the Union of India and others in the Supreme Court of India for the safety of people living in the Patancheru and Bollaram areas of Medak district of the then existing undivided state of Andhra Pradesh. The Company has been named in the list of polluting industries. In 1996, the Andhra Pradesh District Judge proposed that the polluting industries compensate farmers in the Patancheru, Bollaram and Jeedimetla areas for discharging effluents which damaged the farmers' agricultural land. The compensation was fixed at ₹ 0.0013 per acre for dry land and ₹ 0.0017 per acre for wet land.

Accordingly, the Company has paid a total compensation of ₹ 3. The Andhra Pradesh High Court disposed of the writ petition on 12 February 2013 and transferred the case to the National Green Tribunal ("NGT"), Chennai, India. The interim orders passed in the writ petitions will continue until the matter is decided by the NGT. The NGT has, through its order dated 30 October 2015, constituted a Fact Finding Committee. The NGT has also permitted the alleged polluting industries to appoint a person on their behalf in the Fact Finding Committee. However, the Company, along with the alleged polluting industries, has challenged the constitution and composition of the Fact Finding Committee. The NGT has directed that until all the applications challenging the constitution and composition of the Fact Finding Committee are disposed of, the Fact Finding Committee shall not commence its operation.

The NGT, Chennai in a judgement dated 24 October 2017, disposed of the matter. The Bulk Drug Manufacturers Association of India ("BDMAI"), in which the Company is a member, subsequently filed a review petition against the Judgement on various aspects.

The NGT, Delhi, in a judgement dated 16 November 2017, in another case in which the Company is not a party, stated that the moratorium imposed in the Patancheru and Bollaram areas shall continue until the Ministry of Environment, Forest and Climate Change passes an order keeping in view the needs of the environment and public health.

The Company believes that any additional liability that might arise in this regard is not material to the financial statements. Accordingly, no provision relating to these claims has been made in the financial statements as of 31 March 2018.

#### Water pollution and air pollution

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

The Company appealed the APP Control Board orders to the Andhra Pradesh Pollution Appellate Board (the "APP Appellate Board"). The APP Appellate Board, on the basis of a report of a fact-finding advisory committee, recommended to the Andhra Pradesh Government to allow expansion of units fully equipped with Zero-Liquid Discharge ("ZLD") facilities and otherwise found no fault with the Company (on certain conditions).

The APP Appellate Board's decision was challenged by one of the petitioners in the National Green Tribunal and the matter is currently pending before it.

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

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO FINANCIAL STATEMENTS

## 2.32 CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

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

### (v) Indirect taxes related matters

#### Distribution of input service tax credits

The Central Excise Authorities have issued various demand notices to the Company objecting to the Company's methodology of distributing input service tax credits claimed for one of the Company's facilities. The below table shows the details of each such demand notice, the amount demanded and the current status of the Company's responsive actions.

PERIOD COVERED UNDER THE NOTICE	AMOUNT DEMANDED	STATUS
March 2008 to September 2009	₹ 102 plus penalties of ₹ 102 and interest	The Company has filed an appeal before the CESTAT.
October 2009 to March 2011	₹ 125 plus penalties of ₹ 100 and interest	The Company has filed an appeal before the CESTAT.
April 2011 to March 2012	₹ 51 plus interest and penalties	The Company has filed an appeal before the CESTAT.
April 2012 to March 2013	₹ 54 plus interest and penalties	The Company has filed an appeal before the CESTAT.
April 2013 to March 2014	₹ 69 plus interest and penalties	The Company has filed an appeal before the CESTAT.
April 2014 to March 2015	₹ 108 plus interest and penalties	The Company has filed an appeal before the CESTAT.
April 2015 to March 2016	₹ 157 plus interest and penalties	The Company is in the process of responding to the notice.

The Company believes that the likelihood of any liability that may arise on account of the allegedly inappropriate distribution of input service tax credits is not probable. Accordingly, no provision relating to these claims has been made in these financial statements as of 31 March 2018.

#### Value Added Tax ("VAT") matter

The Company has received various demand notices from the Government of Telangana's Commercial Taxes Department objecting to the Company's methodology of calculation of VAT input credit. The below table shows the details of each of such demand notice, the amount demanded and the current status of the Company's responsive actions.

PERIOD COVERED UNDER THE NOTICE	AMOUNT DEMANDED	STATUS
April 2006 to March 2009	₹ 66 plus 10% penalty	The Company has filed an appeal before the Sales Tax Appellate Tribunal.
April 2009 to March 2011	₹ 59 plus 10% penalty	The Company has filed an appeal before the Sales Tax Appellate Tribunal.
April 2011 to March 2013	₹ 16 plus 10% penalty	The Appellate Deputy Commissioner issued an order partially in favour of the Company.

The Company has recorded a provision of ₹ 27 as of 31 March 2018, and believes that the likelihood of any further liability that may arise on account of the allegedly inappropriate claims to VAT credits is not probable.

#### Others

Additionally, the Company is in receipt of various demand notices from the Indian Sales and Service Tax authorities. The disputed amount is ₹ 278. The Company has responded to such demand notices and believes that the chances of any liability arising from such notices are less than probable. Accordingly, no provision is made in these financial statements as of 31 March 2018.

### (vi) Fuel Surcharge Adjustments

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

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

During the three months ended 30 June 2016, the Supreme Court of India dismissed the Special Leave Petition filed by the Company in this regard for the period from 1 April 2012 to 31 March 2013. As a result, for the quarter ended 30 June 2016, the Company recognised an expenditure of ₹ 55 (by de-recognising the payments under protest) representing the FSA charges for the period from 1 April 2012 to 31 March 2013.



# NOTES TO FINANCIAL STATEMENTS

## 2.32 CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

### (vii) Direct taxes related matters

The Company is contesting various disallowances by the Indian Income Tax authorities. The associated tax impact is ₹ 1,727. The Company believes that the chances of an unfavourable outcome in each of such disallowances are less than probable and, accordingly, no provision is made in these financial statements as of 31 March 2018.

### (viii) Others

Additionally, the Company is involved in other disputes, lawsuits, claims, governmental and/or regulatory inspections, inquiries, investigations and proceedings, including patent and commercial matters that arise from time to time in the ordinary course of business. Except as discussed above, the Company does not believe that there are any such contingent liabilities that are expected to have any material adverse effect on its financial statements.

### B. Commitments:

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
	Estimated amounts of contracts remaining to be executed on capital account and not provided for (net of advances)	3,477

## 2.33 DIVIDEND REMITTANCE IN FOREIGN CURRENCY

The Company does not make any direct remittances of dividends in foreign currencies to American Depository Receipts (ADRs) holders. The Company remits the equivalent of the dividends payable to the ADR holders in Indian Rupees to the custodian, which is the registered shareholder on record for all owners of the Company's ADRs. The custodian purchases the foreign currencies and remits it to the depository bank which in turn remits the dividends to the ADR holders.

## 2.34 SEGMENT REPORTING

In accordance with Ind AS 108, *Operating Segments*, segment information has been given in the consolidated financial statements of Dr. Reddy's Laboratories Limited and therefore no separate disclosure on segment information is given in these financial statements.

## 2.35 AGREEMENT WITH GLAND PHARMA LIMITED

On 29 November 2016, the Company entered into an agreement with Gland Pharma Limited ("Gland") to license, market and distribute eight injectable ANDAs. Pursuant to the arrangement, the Company will pay Gland US\$ 6.8 million as consideration for in-licensing the aforesaid eight ANDAs upon completion of certain milestones by Gland.

The carrying value of the intangible as on 31 March 2018 was ₹ 231.

## 2.36 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS USED FOR RESEARCH AND DEVELOPMENT (INCLUDED IN NOTE 2.1 AND NOTE 2.2)

PARTICULARS	GROSS CARRYING VALUE				ACCUMULATED DEPRECIATION/ AMORTISATION				NET CARRYING VALUE	
	AS AT 1 APRIL 2017	ADDITIONS (a)	DISPOSALS (b)	AS AT 31 MARCH 2018	AS AT 1 APRIL 2017	FOR THE YEAR (a)	DISPOSALS (b)	AS AT 31 MARCH 2018	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
<b>Property, plant and equipment</b>										
Land	70	-	-	70	-	-	-	-	70	70
Buildings	1,030	28	61	997	316	39	23	332	665	714
Plant and machinery	5,474	356	197	5,633	3,093	523	176	3,440	2,193	2,381
Furniture and fixtures	212	7	-	219	160	14	-	174	45	52
Office equipment	407	28	21	414	300	64	21	343	71	107
<b>Total (A)</b>	<b>7,193</b>	<b>419</b>	<b>279</b>	<b>7,333</b>	<b>3,869</b>	<b>640</b>	<b>220</b>	<b>4,289</b>	<b>3,044</b>	<b>3,324</b>
<b>Intangible assets</b>										
Softwares	191	36	-	227	94	73	-	167	60	97
Others	102	-	-	102	41	9	-	50	52	61
<b>Total (B)</b>	<b>293</b>	<b>36</b>	<b>-</b>	<b>329</b>	<b>135</b>	<b>82</b>	<b>-</b>	<b>217</b>	<b>112</b>	<b>158</b>
<b>Total (A+B)</b>	<b>7,486</b>	<b>455</b>	<b>279</b>	<b>7,662</b>	<b>4,004</b>	<b>722</b>	<b>220</b>	<b>4,506</b>	<b>3,156</b>	<b>3,482</b>
Previous year	6,503	1,100	117	7486	3,396	700	92	4004	3482	

a) Additions include transfers from non-research and development group to research and development group. The gross carrying value of such transferred assets is ₹ 46 (31 March 2017: ₹ 10) and accumulated depreciation/amortisation is ₹ 36 (31 March 2017: ₹ 9).

b) Disposals include transfers from research and development group to non-research and development group. The gross carrying value of such transferred assets is ₹ 99 (31 March 2017: ₹ 55) and accumulated depreciation/amortisation is ₹ 43 (31 March 2017: ₹ 31).

*(All amounts in Indian Rupees millions, except share data and where otherwise stated)*

# NOTES TO FINANCIAL STATEMENTS

## 2.37 RECEIPT OF WARNING LETTER FROM THE U.S. FDA

The Company received a warning letter dated 5 November 2015 from the U.S. FDA relating to current Good Manufacturing Practice ("cGMP") deviations at its active pharmaceutical ingredient ("API") manufacturing facilities at Srikakulam, Andhra Pradesh and Miryalaguda, Telangana, as well as violations at its oncology formulation manufacturing facility at Duvvada, Visakhapatnam, Andhra Pradesh. The contents of the warning letter emanated from Form 483 observations that followed inspections of these sites by the U.S. FDA in November 2014, January 2015 and February-March 2015, respectively.

The warning letter does not restrict production or shipment of the Company's products from these facilities. However, unless and until the Company is able to correct outstanding issues to the U.S. FDA's satisfaction, the U.S. FDA may withhold approval of new products and new drug applications of the Company, refuse admission of products manufactured at the facilities noted in the warning letter into the United States, and/or take additional regulatory or legal action against the Company. Any such further action could have a material and negative impact on the Company's ongoing business and operations. During the years ended 31 March 2017 and 2018, the U.S. FDA withheld approval of new products from these facilities pending resolution of the issues identified in the warning letter. To minimise the business impact, the Company transferred certain key products to alternate manufacturing facilities.

Subsequent to the issuance of the warning letter, the Company promptly instituted corrective actions and preventive actions and submitted a comprehensive response to the warning letter to the U.S. FDA, followed by periodic written updates and in-person meetings with the U.S. FDA. The U.S. FDA completed the re-inspection of the aforementioned manufacturing facilities in the months of February, March and April 2017. During the re-inspections, the U.S. FDA issued three observations with respect to the API manufacturing facility at Miryalaguda, two observations with respect to the API manufacturing facility at Srikakulam and thirteen observations with respect to the Company's oncology formulation manufacturing facility at Duvvada. The Company has responded to these observations identified by the U.S. FDA and believes that it can resolve them in a timely manner.

In June 2017, the U.S. FDA issued an Establishment Inspection Report ("EIR") which indicated that the inspection of the Company's API manufacturing facility at Miryalaguda is successfully closed.

With regard to the Company's oncology manufacturing facility at Duvvada and its API manufacturing facility at Srikakulam, the Company received EIRs from the U.S. FDA in November 2017 and February 2018, respectively, which indicated that the inspection status of these facilities remains unchanged.

### Inspection of other facilities:

In May and June 2017, inspection of the Company's Formulations Srikakulam Plan (SEZ) Unit II and I, India, was completed by the U.S. FDA with zero and one observations, respectively, and the U.S. FDA issued EIRs in September 2017 for both Units II and I, indicating the closure of the audit for these facilities.

The inspection of the Company's Custom Pharmaceutical Services facility in Hyderabad, India was completed by the U.S. FDA on 21 September 2017 with zero observations, and the U.S. FDA issued an EIR in December 2017 indicating the closure of audit for this facility.

In April 2017, inspection of the Company's formulations manufacturing facility at Bachupally, Hyderabad was completed by the U.S. FDA and the Company was issued a Form 483 with 11 observations. In December 2017, the U.S. FDA issued an EIR which indicates the closure of the audit for this facility.

In March 2018, The inspection of two of the Company's Custom Pharmaceutical Services facility in API manufacturing facilities namely, the API Hyderabad Plant 1, and the API Hyderabad Plant 3, India was completed by the U.S. FDA with four and five observations, respectively. The observations at API Hyderabad Plant 3 were related to procedures and facility maintenance. The Company has responded to these observations and believes that it can address all these observations comprehensively in a timely manner.

## 2.38 CAPITAL MANAGEMENT

For the purposes of the Company's capital management, capital includes issued capital and all other equity reserves. The primary objective of the Company's capital management is to maximise shareholder value. The Company manages its capital structure and makes adjustments in the light of changes in economic environment and the requirements of the financial covenants. The Company monitors capital using gearing ratio, which is total debt divided by total capital plus debt.

The capital gearing ratio as on 31 March 2018 and 31 March 2017 was 18% and 17%, respectively.

## 2.39 SUBSEQUENT EVENTS

There are no significant events that occurred after the balance sheet date.

# NOTES TO FINANCIAL STATEMENTS

## 2.40 RECENT ACCOUNTING PRONOUNCEMENTS

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

### Ind AS 115, *Revenue from Contracts with Customers*

In March 2018, the Ministry of Corporate Affairs ("MCA") has notified Ind AS 115, *Revenue from Contracts with Customers*, which is effective for accounting periods beginning on or after 1 April 2018. This comprehensive new standard will supersede existing revenue recognition guidance, and requires an entity to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

Ind AS 115 is effective for annual reporting periods beginning on or after 1 April 2018.

The Company intends to adopt Ind AS 115 effective 1 April 2018, using the modified retrospective method. The adoption of Ind AS 115 is not expected to have a significant impact on the Company's recognition of revenues from product sales, service income and license fee.

### Other Amendments:

On 28 March 2018, the MCA, issued certain amendments to Ind AS. The amendments relate to the following standards:

- Ind AS 40, *Investment Property*
- Ind AS 21, *The Effects of Changes in Foreign Exchange Rates*
- Ind AS 12, *Income Taxes*
- Ind AS 28, *Investments in Associates and Joint Ventures*
- Ind AS 112, *Disclosure of Interests in Other Entities*

The amendments are effective 1 April 2018. The Company believes that the aforementioned amendments will not materially impact the financial position, performance or the cash flows of the Company.

As per our report of even date attached

for **S.R. Batliboi & Associates LLP**

*Chartered Accountants*

ICAI Firm registration number: 101049W/E300004

per **Kaustav Ghose**

*Partner*

Membership No.: 57828

Place : Hyderabad

Date : 22 May 2018

for and on behalf of the Board of Directors of **Dr. Reddy's Laboratories Limited**

**K Satish Reddy**

**G V Prasad**

**Saumen Chakraborty**

**Sandeep Poddar**

Chairman

Co-Chairman & Chief Executive Officer

Chief Financial Officer

Company Secretary

# CONSOLIDATED FINANCIAL STATEMENTS

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## INDEPENDENT AUDITORS' REPORT

To the members of Dr. Reddy's Laboratories Limited

### Report on the Consolidated Ind AS Financial Statements

We have audited the accompanying consolidated Ind AS financial statements of Dr. Reddy's Laboratories Limited (hereinafter referred to as "the Holding Company"), its subsidiaries (the Holding Company and its subsidiaries together referred to as "the Group") and joint ventures, comprising of the Consolidated Balance Sheet as at 31 March 2018, the Consolidated Statement of Profit and Loss including Other Comprehensive Income, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity for the year then ended, and a summary of significant accounting policies and other explanatory information (hereinafter referred to as "the consolidated Ind AS financial statements").

### Management's Responsibility for the Consolidated Ind AS Financial Statements

The Holding Company's Board of Directors is responsible for the preparation of these consolidated Ind AS financial statements in terms of the requirement of the Companies Act, 2013 ("the Act") that give a true and fair view of the consolidated financial position, consolidated financial performance including other comprehensive income, consolidated cash flows and consolidated statement of changes in equity of the Group including its Joint Ventures in accordance with accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with the Companies (Indian Accounting Standard) Rules, 2015, as amended. The respective Board of Directors of the companies included in the Group and of its joint ventures are responsible for maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Group and of its joint ventures and for preventing and detecting frauds and other irregularities; the selection and application of appropriate accounting policies; making judgements and estimates that are reasonable and prudent; and the design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error, which have been used for the purpose of preparation of the consolidated Ind AS financial statements by the Directors of the Holding Company, as aforesaid.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated Ind AS financial statements based on our audit. While conducting the audit, we have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder. We conducted our audit in accordance with the Standards on Auditing, issued by the Institute of Chartered Accountants of India, as specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Holding Company's preparation of the consolidated Ind AS financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the Holding Company's Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence obtained by us and the audit evidence obtained by the other auditors in terms of their reports referred to in sub-paragraph (a) of the Other Matters paragraph below, is sufficient and appropriate to provide a basis for our audit opinion on the consolidated Ind AS financial statements.

### Opinion

In our opinion and to the best of our information and according to the explanations given to us and based on the consideration of reports of other auditors on separate financial statements and on the other financial information of the subsidiaries and joint ventures, the aforesaid consolidated Ind AS financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India of the consolidated state of affairs of the Group and its joint ventures as at 31 March 2018, their consolidated profit including other comprehensive income, their consolidated cash flows and consolidated statement of changes in equity for the year ended on that date.

### Other Matter

We did not audit the financial statements and other financial information, in respect of two subsidiaries, whose Ind AS financial statements include total assets of ₹ 19,130 million and net assets of ₹ (4,002) million as at 31 March 2018, and total revenues of ₹ 23,613 million and net cash inflows of ₹ 18 million for the year ended on that date. The above financial information are before giving effect to any consolidation adjustments. These financial statement and other financial information have been audited by other auditors, which financial statements, other financial information and auditors' reports have been furnished to us. Our opinion on the consolidated Ind AS financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries and our report in terms of sub-sections (3) of Section 143 of the Act, in so far as it relates to the aforesaid subsidiaries, is based solely on the reports of such other auditors.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

Our opinion above on the consolidated Ind AS financial statements, and our report on Other Legal and Regulatory Requirements below, is not modified in respect of the above matters with respect to our reliance on the work done and the reports of the other auditors and the financial statements and other financial information certified by the Management.

### Report on Other Legal and Regulatory Requirements

As required by section 143 (3) of the Act, based on our audit and on the consideration of report of the other auditors on separate financial statements and the other financial information of subsidiaries and joint ventures, as noted in the 'other matter' paragraph we report, to the extent applicable, that:

- a) We/the other auditors whose reports we have relied upon have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit of the aforesaid consolidated Ind AS financial statements;
- b) In our opinion proper books of account as required by law relating to preparation of the aforesaid consolidation of the financial statements have been kept so far as it appears from our examination of those books and reports of the other auditors;
- c) The Consolidated Balance Sheet, Consolidated Statement of Profit and Loss including the Statement of Other Comprehensive Income, the Consolidated Statement of Cash Flows and Consolidated Statement of Changes in Equity dealt with by this Report are in agreement with the books of account maintained for the purpose of preparation of the consolidated Ind AS financial statements;
- d) In our opinion, the aforesaid consolidated Ind AS financial statements comply with the Accounting Standards specified under section 133 of the Act, read with Companies (Indian Accounting Standard) Rules, 2015, as amended;
- e) On the basis of the written representations received from the directors of the Holding Company as on 31 March 2018 taken on record by the Board of Directors of the Holding Company and the reports of the statutory auditors who are appointed under Section 139 of the Act, of its subsidiary companies and joint ventures incorporated in India, none of the directors of the Group's companies and joint ventures incorporated in India is disqualified as on 31 March 2018 from being appointed as a director in terms of Section 164 (2) of the Act;
- f) With respect to the adequacy and the operating effectiveness of the internal financial controls over financial reporting with reference to these consolidated Ind AS financial statements of the Holding Company and its joint ventures incorporated in India, refer to our separate report in "Annexure 1" to this report;
- g) With respect to the other matters to be included in the Auditors' Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us and based on the consideration of the report of the other auditors on separate financial statements as also the other financial information of the subsidiaries, and joint ventures, as noted in the 'Other matter' paragraph:
  - (i) The consolidated Ind AS financial statements disclose the impact of pending litigations on its consolidated financial position of the Group and joint ventures- Refer Note 2.35 to the consolidated Ind AS financial statements;
  - (ii) Provision has been made in the consolidated Ind AS financial statements, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts; and
  - (iii) There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Holding Company, its subsidiaries and joint ventures incorporated in India during the year ended 31 March 2018.

for S.R. Batliboi & Associates LLP

Chartered Accountants

ICAI Firm Registration Number: 101049W/E300004

per Kaustav Ghose

Partner

Membership Number: 57828

Place : Hyderabad

Date : 22 May 2018

## **ANNEXURE 1 TO THE INDEPENDENT AUDITORS' REPORT OF EVEN DATE ON THE CONSOLIDATED FINANCIAL STATEMENTS OF DR. REDDY'S LABORATORIES LIMITED**

Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 ("the Act")

In conjunction with our audit of the consolidated financial statements of Dr. Reddy's Laboratories Limited as of and for the year ended 31 March 2018, we have audited the internal financial controls over financial reporting of Dr. Reddy's Laboratories Limited (hereinafter referred to as the "Holding Company"), its subsidiary companies, and joint ventures which are companies incorporated in India, as of that date.

### **Management's Responsibility for Internal Financial Controls**

The respective Board of Directors of the Holding Company, its subsidiary companies, and joint ventures, which are companies incorporated in India, are responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Holding Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India. These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to the respective company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Act.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on the Company's internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the "Guidance Note") and the Standards on Auditing as specified under section 143(10) of the Companies Act, 2013, to the extent applicable to an audit of internal financial controls and, both issued by the Institute of Chartered Accountants of India. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

We believe that the audit evidence we have obtained and the audit evidence obtained by the other auditors in terms of their reports referred to in the Other Matters paragraph below, is sufficient and appropriate to provide a basis for our audit opinion on the internal financial controls system over financial reporting.

### **Meaning of Internal Financial Controls Over Financial Reporting**

A company's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal financial control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

### **Inherent Limitations of Internal Financial Controls Over Financial Reporting**

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**ANNEXURE 1 TO THE INDEPENDENT AUDITORS' REPORT OF EVEN DATE ON THE CONSOLIDATED FINANCIAL STATEMENTS OF DR. REDDY'S LABORATORIES LIMITED** (CONTINUED)**Opinion**

In our opinion, the Holding Company, its subsidiary companies, and joint ventures, which are companies incorporated in India, have, maintained in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at 31 March 2018, based on the internal control over financial reporting criteria established by the Holding Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India.

**Other Matters**

Our report under Section 143(3)(i) of the Act on the adequacy and operating effectiveness of the internal financial controls over financial reporting of the Holding Company, insofar as it relates to the six subsidiary companies, and a joint venture company, which are companies incorporated in India, is based on the corresponding reports of the auditors of such subsidiary, and joint venture companies incorporated in India.

*for S.R. Batliboi & Associates LLP*

*Chartered Accountants*

ICAI Firm Registration Number: 101049W/E300004

**per Kaustav Ghose**

*Partner*

Membership Number: 57828

Place : Hyderabad

Date : 22 May 2018



(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# CONSOLIDATED BALANCE SHEET

PARTICULARS	NOTE	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	2.1	49,733	50,281
Capital work-in-progress		7,678	6,095
Goodwill	2.2	5,331	4,763
Other intangible assets	2.2	14,616	14,263
Intangible assets under development	2.3	27,027	27,150
Investment in joint ventures		2,104	1,603
<b>Financial assets</b>			
Investments	2.4 A	2,549	5,223
Trade receivables	2.4 B	169	210
Other financial assets	2.4 C	756	829
Deferred tax assets, net	2.29	5,405	6,784
Tax assets, net		4,567	3,388
Other non-current assets	2.5 A	524	739
		<b>120,459</b>	<b>121,328</b>
<b>Current assets</b>			
Inventories	2.6	29,089	28,528
<b>Financial assets</b>			
Investments	2.4 A	18,330	14,271
Trade receivables	2.4 B	40,527	37,986
Derivative instruments	2.4 D	105	264
Cash and cash equivalents	2.4 E	2,638	3,865
Other financial assets	2.4 C	1,533	1,432
Other current assets	2.5 B	12,762	10,491
		<b>104,984</b>	<b>96,837</b>
<b>Total assets</b>		<b>225,443</b>	<b>218,165</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Equity share capital	2.7	830	829
Other equity		124,886	121,792
		<b>125,716</b>	<b>122,621</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
<b>Financial Liabilities</b>			
Borrowings	2.8 A	25,089	5,449
Other financial liabilities	2.8 C	144	183
Provisions	2.9 A	817	842
Deferred tax liabilities, net	2.29	1,950	1,620
Other non-current liabilities	2.10 A	2,789	3,251
		<b>30,789</b>	<b>11,345</b>
<b>Current liabilities</b>			
<b>Financial Liabilities</b>			
Borrowings	2.8 B	25,562	43,626
Trade payables	2.8 D	13,345	10,569
Derivative instruments	2.33	85	10
Other financial liabilities	2.8 C	19,497	18,740
Liabilities for current tax, net		1,530	1,482
Provisions	2.9 B	4,387	5,125
Other current liabilities	2.10 B	4,532	4,647
		<b>68,938</b>	<b>84,199</b>
<b>Total equity and liabilities</b>		<b>225,443</b>	<b>218,165</b>

The accompanying notes are an integral part of the consolidated financial statements.

As per our report of even date attached  
for S.R. Batliboi & Associates LLP  
Chartered Accountants  
ICAI Firm registration number: 101049W/E300004  
per Kaustav Ghose  
Partner  
Membership No.: 57828  
Place : Hyderabad  
Date : 22 May 2018

for and on behalf of the Board of Directors of Dr. Reddy's Laboratories Limited

K Satish Reddy  
G V Prasad  
Saumen Chakraborty  
Sandeep Poddar

Chairman  
Co-Chairman & Chief Executive Officer  
Chief Financial Officer  
Company Secretary

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

**CONSOLIDATED STATEMENT OF PROFIT AND LOSS**

PARTICULARS	NOTE	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
<b>INCOME</b>			
Sales	2.11	138,022	138,663
License fees and service income		4,006	2,146
Other operating income	2.12	782	1,152
Total revenue from operations		142,810	141,961
Other income	2.13	1,552	1,715
Total income		144,362	143,676
<b>EXPENSES</b>			
Cost of materials consumed		26,309	24,446
Purchase of stock-in-trade		14,501	13,752
(Increase)/decrease in inventories of finished goods, work-in-progress and stock-in-trade	2.14	(415)	(1,233)
Employee benefits expense	2.15	32,149	31,068
Depreciation and amortisation expense	2.16	10,772	10,266
Finance costs	2.17	788	634
Selling and other expenses	2.18	46,754	49,206
Total expenses		130,858	128,139
Profit before tax		13,504	15,537
Tax expense	2.29		
Current tax		1,753	3,096
Deferred tax		2,627	(131)
Net profit for the year before share of profit of equity accounted investees		9,124	12,572
Share of profit of equity accounted investees, net of tax		344	349
<b>Profit for the year</b>		<b>9,468</b>	<b>12,921</b>
<b>Other comprehensive income (OCI)</b>			
Items that will not be reclassified subsequently to profit or loss		(3,710)	1,930
Income tax on items that will not be reclassified subsequently to profit or loss		874	(404)
		(2,836)	1,526
Items that will be reclassified subsequently to profit or loss		(23)	1,279
Income tax on items that will be reclassified subsequently to profit or loss		23	136
		0	1,415
Total other comprehensive income/(loss) for the year, net of tax		(2,836)	2,941
<b>Total comprehensive income for the year</b>		<b>6,632</b>	<b>15,862</b>
Profit for the year			
Attributable to:			
Equity holders of the parent		9,468	12,921
Non-controlling interests		-	-
Total comprehensive income for the year			
Attributable to:			
Equity holders of the parent		6,632	15,862
Non-controlling interests		-	-
Earnings per share:	2.21		
Basic earnings per share of ₹ 5/- each		57.08	77.53
Diluted earnings per share of ₹ 5/- each		56.96	77.37

The accompanying notes are an integral part of the consolidated financial statements.

As per our report of even date attached  
for S.R. Batliboi & Associates LLP  
Chartered Accountants  
ICAI Firm registration number: 101049W/E300004  
per Kaustav Ghose  
Partner  
Membership No.: 57828  
Place : Hyderabad  
Date : 22 May 2018

for and on behalf of the Board of Directors of Dr. Reddy's Laboratories Limited

K Satish Reddy  
G V Prasad  
Saumen Chakraborty  
Sandeep Poddar

Chairman  
Co-Chairman & Chief Executive Officer  
Chief Financial Officer  
Company Secretary

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Particulars	Reserves and surplus							Other components of equity				Total equity
	Equity share capital	Securities premium	Share-based payment reserve	Capital reserve	Capital redemption reserve	General reserve	Retained earnings	Cash flow hedge reserve	FVTOCI equity instruments	Remeasurements of the net defined benefits plan	Foreign currency translation reserve	
<b>Balance as at 1 April 2017</b>	829	4,779	804	267	173	20,374	90,771	84	903	(146)	3,783	<b>122,621</b>
Issue of equity shares on exercise of options (Refer note 2.7)	1	432	(432)	-	-	-	-	-	-	-	-	1
Share-based payment expense (Refer note 2.27)	-	-	454	-	-	-	-	-	-	-	-	454
Foreign currency translation adjustments, net of tax expense of ₹ 17	-	-	-	-	-	-	-	-	-	-	39	39
Effective portion of changes in fair value of cash flow hedges, net of tax benefit of ₹ 40 (Refer note 2.33)	-	-	-	-	-	-	-	(39)	-	-	-	(39)
Actuarial gain/(loss) on post-employment benefit obligations, net of tax expense of ₹ 19 (Refer note 2.28)	-	-	-	-	-	-	-	-	-	40	-	40
Profit for the year	-	-	-	-	-	-	9,468	-	-	-	-	9,468
Dividend paid (including dividend distribution tax)	-	-	-	-	-	-	(3,992)	-	-	-	-	(3,992)
Net change in fair value of FVTOCI* equity instruments, net of tax benefit of ₹ 893	-	-	-	-	-	-	-	-	(2,876)	-	-	(2,876)
<b>Balance as at 31 March 2018</b>	<b>830</b>	<b>5,211</b>	<b>826</b>	<b>267</b>	<b>173</b>	<b>20,374</b>	<b>96,247</b>	<b>45</b>	<b>(1,973)</b>	<b>(106)</b>	<b>3,822</b>	<b>125,716</b>
Particulars	Reserves and surplus							Other components of equity				Total equity
Equity share capital	Securities premium	Share-based payment reserve	Capital reserve	Capital redemption reserve	General reserve	Retained earnings	Cash flow hedge reserve	FVTOCI equity instruments	Remeasurements of the net defined benefits plan	Foreign currency translation reserve		
<b>Balance as at 1 April 2016</b>	853	20,021	906	267	148	19,019	82,595	(819)	(647)	(122)	3,477	<b>125,698</b>
Issue of equity shares on exercise of options (Refer note 2.7)	1	452	(452)	-	-	-	-	-	-	-	-	1
Buy back of equity shares (Refer note 2.24)	(25)	(15,669)	-	-	-	-	-	-	-	-	-	(15,694)
Share-based payment expense (Refer note 2.27)	-	-	350	-	-	-	-	-	-	-	-	350
Foreign currency translation adjustments, net of tax benefit of ₹ 177	-	-	-	-	-	-	-	-	-	-	306	306
Effective portion of changes in fair value of cash flow hedges, net of tax expense of ₹ 41 (Refer note 2.33)	-	-	-	-	-	-	-	903	-	-	-	903
Actuarial gain/(loss) on post-employment benefit obligations, net of tax benefit of ₹ 14 (Refer note 2.28)	-	-	-	-	-	-	-	-	-	(24)	-	(24)
Transfer to capital redemption reserve	-	(25)	-	-	25	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	-	12,921	-	-	-	-	12,921
Transfer to general reserve	-	-	-	-	-	1,355	(1,355)	-	-	-	-	-
Dividend paid (including dividend distribution tax)	-	-	-	-	-	(3,390)	-	-	-	-	-	(3,390)
Net change in fair value of FVTOCI* equity instruments, net of tax benefit of ₹ 418	-	-	-	-	-	-	-	-	1,550	-	-	1,550
<b>Balance as at 31 March 2017</b>	<b>829</b>	<b>4,779</b>	<b>804</b>	<b>267</b>	<b>173</b>	<b>20,374</b>	<b>90,771</b>	<b>84</b>	<b>903</b>	<b>(146)</b>	<b>3,783</b>	<b>122,621</b>

\* FVTOCI represents fair value through other comprehensive income.

The accompanying notes are an integral part of the consolidated financial statements.

As per our report of even date attached

for S.R. Batliboi &amp; Associates LLP

Chartered Accountants

ICAI Firm registration number: 101049W/E300004

per Kaustav Ghose

Partner

Membership No.: 57828

Place : Hyderabad

Date : 22 May 2018

for and on behalf of the Board of Directors of Dr. Reddy's Laboratories Limited

K Satish Reddy

G V Prasad

Saumen Chakraborty

Sandeeep Poddar

Chairman

Co-Chairman &amp; Chief Executive Officer

Chief Financial Officer

Company Secretary

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# CONSOLIDATED STATEMENT OF CASH FLOWS

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
<b>Cash flows from/(used in) operating activities</b>		
<b>Profit before tax</b>	<b>13,504</b>	<b>15,537</b>
Adjustments:		
Depreciation and amortisation expense	10,772	10,266
Impairment of property, plant and equipment	-	335
Impairment of intangible assets	53	110
Equity settled share-based payment expense	454	344
Fair value gain on financial instruments at fair value through profit or loss	(75)	(700)
Foreign exchange loss/(gain), net	(281)	428
Loss on disposal of property, plant and equipment	55	80
Finance income	(540)	(558)
Finance costs	788	634
Profit on sale of mutual funds, net	(806)	(497)
Allowance for sales returns	2,702	3,177
Provision for inventory obsolescence	2,946	3,085
Allowances for credit losses, net	169	158
Allowances for doubtful advances, net	16	11
<i>Changes in operating assets and liabilities:</i>		
Trade receivables	(2,097)	3,036
Inventories	(3,233)	(6,324)
Trade payables	2,550	1,799
Other assets and liabilities, net	(6,186)	(3,707)
Cash generated from operations	20,791	27,214
Income tax paid, net	(2,761)	(5,770)
<b>Net cash from operating activities</b>	<b>18,030</b>	<b>21,444</b>
<b>Cash flows from/(used in) investing activities</b>		
Proceeds from sale of property, plant and equipment	139	44
Purchase of property, plant and equipment	(9,291)	(12,225)
Purchase of intangible assets	(1,752)	(28,706)
Purchase of investments	(68,291)	(49,723)
Proceeds from sale of investments	64,038	71,595
Finance income received	274	628
Cash paid for acquisition of business, net of cash acquired	-	(17)
<b>Net cash used in investing activities</b>	<b>(14,883)</b>	<b>(18,404)</b>
<b>Cash flows from/(used in) financing activities</b>		
Proceeds from exercise of share options	1	1
Buyback of equity shares	-	(15,694)
Proceeds from/(repayment of) short-term loans and borrowings, net	(18,025)	21,535
Proceeds from/(repayment of) long-term loans and borrowings, net	18,907	(5,221)
Interest paid	(1,331)	(923)
Dividends paid to equity holders of the parent	(3,992)	(3,390)
<b>Net cash used in financing activities</b>	<b>(4,440)</b>	<b>(3,692)</b>
Net decrease in cash and cash equivalents	(1,293)	(651)
Effect of exchange rate changes on cash and cash equivalents	57	(492)
Cash and cash equivalents at the beginning of the year (Refer note 2.4 E)	3,778	4,921
<b>Cash and cash equivalents at the end of the year (Refer note 2.4 E)</b>	<b>2,542</b>	<b>3,778</b>

The accompanying notes are an integral part of the consolidated financial statements.

As per our report of even date attached  
for S.R. Batliboi & Associates LLP  
Chartered Accountants  
ICAI Firm registration number: 101049W/E300004  
per Kaustav Ghose  
Partner  
Membership No.: 57828  
Place : Hyderabad  
Date : 22 May 2018

for and on behalf of the Board of Directors of Dr. Reddy's Laboratories Limited

K Satish Reddy  
G V Prasad  
Saumen Chakraborty  
Sandeep Poddar

Chairman  
Co-Chairman & Chief Executive Officer  
Chief Financial Officer  
Company Secretary

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1 DESCRIPTION OF THE GROUP AND SIGNIFICANT ACCOUNTING POLICIES

### 1.1 Description of the Group

Dr. Reddy's Laboratories Limited ("Dr. Reddy's" or the "parent company") together with its subsidiaries and joint ventures (collectively, "the Company" or "the Group") is a leading India-based pharmaceutical company headquartered and having its registered office in Hyderabad, Telangana, India. Through its three businesses - Pharmaceutical Services and Active Ingredients, Global Generics and Proprietary Products - the Company offers a portfolio of products and services, including Active Pharmaceutical Ingredients ("APIs"), Custom Pharmaceutical Services ("CPS"), generics, biosimilars, differentiated formulations and New Chemical Entities ("NCEs").

The Company's principal research and development facilities are located in the states of Telangana and Andhra Pradesh in India, Cambridge in the United Kingdom and Leiden in the Netherlands; its principal manufacturing facilities are located in the states of Telangana, Andhra Pradesh and Himachal Pradesh in India, Cuernavaca-Cuautla in Mexico, Mirfield in the United Kingdom, and Louisiana and Tennessee in the United States; and its principal markets are in India, Russia, the United States, the United Kingdom and Germany. The Company's shares trade on the Bombay Stock Exchange and the National Stock Exchange in India and also on the New York Stock Exchange in the United States.

Please refer note 2.26 for list of subsidiaries, step-down subsidiaries and joint ventures of the parent company.

### 1.2 Basis of preparation of consolidated financial statements

The consolidated financial statements of the Group have been prepared and presented in accordance with the Indian Accounting Standards ("Ind AS") notified under the Companies (Indian Accounting Standards) Rules 2015 and as amended from time to time.

These consolidated financial statements have been prepared on the historical cost convention and on an accrual basis, except for the following material items in the balance sheet:

- derivative financial instruments are measured at fair value;
- certain financial assets are measured either at fair value or at amortised cost depending on the classification;
- employee defined benefit assets/(liability) are remeasured at the net total of the fair value of plan assets, plus actuarial losses, less actuarial gains and the present value of the defined benefit obligation;
- long-term borrowings, except obligations under finance leases, are measured at amortised cost using the effective interest rate method;
- Share-based payments; and
- investments in joint ventures are accounted for using the equity method.

### 1.3 Use of estimates and judgements

The preparation of financial statements in conformity with Ind AS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

- Note 1.4(b) – Evaluation of joint arrangements;
- Note 1.4(a) – Assessment of functional currency;
- Note 1.4(r) – Financial instruments;
- Note 1.4(c) – Business combinations;
- Notes 1.4(k) and 1.4(l) – Useful lives of property, plant and equipment and intangible assets;
- Note 1.4(n) – Valuation of inventories;
- Note 1.4(o) – Measurement of recoverable amounts of cash-generating units;
- Note 1.4(p) – Assets and obligations relating to employee benefits;
- Note 1.4(p) – Share-based payments;
- Note 1.4(q) – Provisions and other accruals;
- Note 1.4(f) – Sales returns, rebates and charge back provisions;

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- Note 1.4(i) – Evaluation of recoverability of deferred tax assets; and
- Note 1.4(q) – Contingencies

### 1.4 Significant accounting policies

#### a) Functional currency

These consolidated financial statements are presented in Indian rupees, which is the functional currency of the parent company. All financial information presented in Indian rupees has been rounded to the nearest million.

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

In respect of subsidiaries whose operations are self-contained and integrated within their respective countries/regions, the functional currency has been determined to be the local currency of those countries/regions, unless use of a different currency is considered appropriate.

#### b) Basis of consolidation

##### Subsidiaries

Subsidiaries are all entities (including special purpose entities) that are controlled by the Company. Control exists when the Company is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through power over the entity. In assessing control, potential voting rights are considered only if the rights are substantive. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date that control ceases. For the purpose of preparing these consolidated financial statements, the accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Company.

##### Joint arrangements (equity accounted investees)

Joint arrangements are those arrangements over which the Company has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

A joint arrangement is either a joint operation or a joint venture. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Investments in associates and joint ventures are accounted for using the equity method and are initially recognised at cost. The carrying value of the Company's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The Company does not consolidate entities where the non-controlling interest ("NCI") holders have certain significant participating rights that provide for effective involvement in significant decisions in the ordinary course of business of such entities. Investments in such entities are accounted by the equity method of accounting. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to zero and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

For the purpose of preparing these consolidated financial statements, the accounting policies of joint ventures have been changed where necessary to align them with the policies adopted by the Company.

##### Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in full while preparing these consolidated financial statements. Unrealised gains or losses arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Company's interest in the investee.

##### Acquisition of non-controlling interests

Acquisition of some or all of the NCI is accounted for as a transaction with equity holders in their capacity as equity holders. Consequently, the difference arising between the fair value of the purchase consideration paid and the carrying value of the NCI is recorded as an adjustment to retained earnings that is attributable to the parent company. The associated cash flows are classified as financing activities. No goodwill is recognised as a result of such transactions.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Loss of Control

Upon loss of control, the Company derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the consolidated statement of profit and loss. If the Company retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as a FVTOCI or FVTPL financial asset, depending on the level of influence retained.

### c) Business combinations and goodwill

In accordance with the provisions of Ind AS 101, *First time adoption of Indian Accounting Standards*, the Group has elected to apply accounting for business combinations prospectively from transition date i.e., 1 April 2015. As such, Indian GAAP balances relating to business combinations entered into before that date, including goodwill, have been carried forward.

The Company uses the acquisition method of accounting to account for business combinations. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another. Control exists when the Company is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through power over the entity. In assessing control, potential voting rights are considered only if the rights are substantive. The Company measures goodwill as of the applicable acquisition date at the fair value of the consideration transferred, including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount of the identifiable assets acquired and liabilities assumed.

When the fair value of the net identifiable assets acquired and liabilities assumed exceeds the consideration transferred, a bargain purchase gain is recognised immediately in the OCI and accumulates the same in equity as capital reserve where there exists clear evidence of the underlying reasons for classifying the business combination as a bargain purchase else the gain is directly recognised in equity as capital reserve. Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Company to the previous owners of the acquiree, and equity interests issued by the Company. Consideration transferred also includes the fair value of any contingent consideration. Consideration transferred does not include amounts related to the settlement of pre-existing relationships and employee service related payments. Any goodwill that arises on account of such business combination is tested annually for impairment.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and the settlement is accounted for within equity. Otherwise, other contingent consideration is re-measured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recorded in the consolidated statement of profit and loss.

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

On an acquisition-by-acquisition basis, the Company recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Transaction costs that the Company incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees and other professional and consulting fees, are expensed as incurred.

However, the following assets and liabilities acquired in a business combination are measured at the basis indicated below:

- Deferred tax assets or liabilities, and the assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with Ind AS 12, *Income Taxes* and Ind AS 19, *Employee Benefits* respectively.
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payments arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with Ind AS 102, *Share-based Payment* at the acquisition date.
- Assets (or disposal groups) that are classified as held for sale in accordance with Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.
- Reacquired rights are measured at a value determined on the basis of the remaining contractual term of the related contract. Such valuation does not consider potential renewal of the reacquired right.

### d) Current and non-current classification

All the assets and liabilities have been classified as current or non-current as per the Company's normal operating cycle and other criteria set out in the Schedule III to the Companies Act, 2013 and Ind AS 1, *Presentation of Financial Statements*.

*(All amounts in Indian Rupees millions, except share data and where otherwise stated)*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Assets:

An asset is classified as current when it satisfies any of the following criteria:

- a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;
- b) it is held primarily for the purpose of being traded;
- c) it is expected to be realised within twelve months after the reporting date; or
- d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

### Liabilities:

A liability is classified as current when it satisfies any of the following criteria:

- a) it is expected to be settled in the Company's normal operating cycle;
- b) it is held primarily for the purpose of being traded;
- c) it is due to be settled within twelve months after the reporting date; or
- d) the Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Current assets/liabilities include the current portion of non-current assets/liabilities respectively. All other assets/liabilities are classified as non-current. Deferred tax assets and liabilities are always disclosed as non-current.

### e) Foreign currencies

#### Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of entities within the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate at that date. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised in the consolidated statement of profit and loss in the period in which they arise with the exception of the following:

- Exchange differences arising on monetary items that forms part of a reporting entity's net investment in a foreign operation are recognised in profit or loss in the separate financial statements of the reporting entity or the individual financial statements of the foreign operation, as appropriate. In the financial statements that include the foreign operation and the reporting entity (e.g., consolidated financial statements when the foreign operation is a subsidiary), such exchange differences are recognised initially in OCI. These exchange differences are reclassified from equity to profit or loss on disposal of the net investment;
- Exchange differences arising on monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss;
- Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI; and
- Qualifying cash flow hedges, to the extent that the hedges are effective.

When several exchange rates are available, the rate used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date.

#### Foreign operations

Foreign exchange gains and losses arising from a monetary item receivable from a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of the net investment in the foreign operation and are recognised in other comprehensive income/(loss) and presented within equity as a part of foreign currency translation reserve ("FCTR").



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In case of foreign operations whose functional currency is different from the parent company's functional currency, the assets and liabilities of such foreign operations, including goodwill and fair value adjustments arising upon acquisition, are translated to the presentation currency at exchange rates at the reporting date. The income and expenses of such foreign operations are translated to the presentation currency at the monthly average exchange rates prevailing during the year. Resulting foreign currency differences are recognised in other comprehensive income/(loss) and presented within equity as part of FCTR. When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to the consolidated statement of profit and loss.

### f) Revenue

#### Sale of goods

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Revenue from the sale of goods includes excise duty and is measured at the fair value of the consideration received or receivable, net of returns, sales tax and applicable trade discounts, allowances, goods and services tax (GST) and amounts collected on behalf of third parties. Revenue includes shipping and handling costs billed to the customer.

Revenue from sales of generic products in India is recognised upon delivery of products to distributors by clearing and forwarding agents of the Company. Significant risks and rewards in respect of ownership of generic products are transferred by the Company when the goods are delivered to distributors from clearing and forwarding agents. Clearing and forwarding agents are generally compensated on a commission basis as a percentage of sales made by them. Revenue from sales of active pharmaceutical ingredients and intermediates in India is recognised on delivery of products to customers (generally formulation manufacturers), from the factories of the Company, at which point all the significant risks and rewards of ownership of products are transferred.

Revenue from export sales and other sales outside of India is recognised when the significant risks and rewards of ownership of products are transferred to the customers, which occurs upon delivery of the products to the customers unless the terms of the applicable contract provide for specific revenue generating activities to be completed, in which case revenue is recognised once all such activities are completed.

#### Profit share revenues

The Company from time to time enters into marketing arrangements with certain business partners for the sale of its products in certain markets. Under such arrangements, the Company sells its products to the business partners at a non-refundable base purchase price agreed upon in the arrangement and is also entitled to a profit share which is over and above the base purchase price. The profit share is typically dependent on the business partner's ultimate net sale proceeds or net profits, subject to any reductions or adjustments that are required by the terms of the arrangement. Such arrangements typically require the business partner to provide confirmation of units sold and net sales or net profit computations for the products covered under the arrangement.

Revenue in an amount equal to the base purchase price is recognised in these transactions upon delivery of products to the business partners. An additional amount representing the profit share component is recognised as revenue in the period which corresponds to the ultimate sales of the products made by business partners only when the collectability of the profit share becomes probable and a reliable measurement of the profit share is available. Otherwise, recognition is deferred to a subsequent period pending satisfaction of such collectability and measurability requirements. In measuring the amount of profit share revenue to be recognised for each period, the Company uses all available information and evidence, including any confirmations from the business partner of the profit share amount owed to the Company, to the extent made available before the date the Company's Board of Directors authorises the issuance of its financial statements for the applicable period.

#### Milestone payments and out licensing arrangements

Revenues include amounts derived from product out-licensing agreements. These arrangements typically consist of an initial up-front payment on inception of the license and subsequent payments dependent on achieving certain milestones in accordance with the terms prescribed in the agreement. Non-refundable up-front license fees received in connection with product out-licensing agreements are deferred and recognised over the period in which the Company has continuing performance obligations. Milestone payments which are contingent on achieving certain clinical milestones are recognised as revenues either on achievement of such milestones, if the milestones are considered substantive, or over the period the Company has continuing performance obligations, if the milestones are not considered substantive. If milestone payments are creditable against future royalty payments, the milestones are deferred and released over the period in which the royalties are anticipated to be paid.

*(All amounts in Indian Rupees millions, except share data and where otherwise stated)*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Provision for chargeback, rebates and discounts

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

### Shelf stock adjustments

Shelf stock adjustments are credits issued to customers to reflect decreases in the selling price of products sold by the Company, and are accrued when the prices of certain products decline as a result of increased competition upon the expiration of limited competition or exclusivity periods. These credits are customary in the pharmaceutical industry, and are intended to reduce the customer inventory cost to better reflect the current market prices. The determination to grant a shelf stock adjustment to a customer is based on the terms of the applicable contract, which may or may not specifically limit the age of the stock on which a credit would be offered.

### Sales Returns

The Company accounts for sales returns accrual by recording an allowance for sales returns concurrent with the recognition of revenue at the time of a product sale. This allowance is based on the Company's estimate of expected sales returns. The Company deals in various products and operates in various markets. Accordingly, the estimate of sales returns is determined primarily by the Company's historical experience in the markets in which the Company operates. With respect to established products, the Company considers its historical experience of sales returns, levels of inventory in the distribution channel, estimated shelf life, product discontinuances, price changes of competitive products, and the introduction of competitive new products, to the extent each of these factors impact the Company's business and markets. With respect to new products introduced by the Company, such products have historically been either extensions of an existing line of product where the Company has historical experience or in therapeutic categories where established products exist and are sold either by the Company or the Company's competitors.

### Services

Revenue from services rendered, which primarily relate to contract research, is recognised in the consolidated statement of profit and 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.

### License fee

The Company enters into certain dossier sales, licensing and supply arrangements with various parties. Income from licensing arrangements is generally recognised over the term of the contract. Some of these arrangements include certain performance obligations by the Company. Revenue from such arrangements is recognised in the period in which the Company completes all its performance obligations.

### g) Interest income and dividend

Interest income primarily comprises of interest from term deposits with banks. Interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the gross carrying amount of the financial asset. Interest income is included in other income in the consolidated statement of profit and loss.

Dividend income is recognised when the Company's right to receive the payment is established, which is generally when shareholders approve the dividend.

### h) Government grants

The Company recognises government grants only when there is reasonable assurance that the conditions attached to them will be complied with, and the grants will be received. Government grants received in relation to assets are presented in the balance sheet by setting up the grant as deferred income. Grants related to income are deducted in reporting the related expense in the consolidated statement of profit and loss.

Export entitlements from government authorities are recognised in the consolidated statement of profit and loss as a reduction from "Cost of materials consumed" when the right to receive credit as per the terms of the scheme is established in respect of the exports made by the Company, and where there is no significant uncertainty regarding the ultimate collection of the relevant export proceeds.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### i) Income tax

Income tax expense consists of current and deferred tax. Income tax expense is recognised in the consolidated statement of profit and loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences:

- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit;
- differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising upon the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Company recognises deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, except to the extent that both of the following conditions are satisfied:

- a) When the Company is able to control the timing of the reversal of the temporary difference; and
- b) it is probable that the temporary difference will not reverse in the foreseeable future.

Any deferred tax asset or liability arising from deductible or taxable temporary differences in respect of unrealised inter-company profit or loss on inventories held by the Company in different tax jurisdictions is recognised using the tax rate of the jurisdiction in which such inventories are held. Dividend distribution tax arising out of payment of dividends to shareholders under the Indian Income tax regulations is not considered as tax expense for the Company and all such taxes are recognised in the statement of changes in equity as part of the associated dividend payment.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### j) Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which includes all stock options granted to employees.

### k) Property, plant and equipment

#### Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and other costs directly attributable to bringing the asset to a working condition for its intended use. General and specific borrowing costs that are directly attributable to the construction or production of a qualifying asset are capitalised as part of the cost of that asset during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Gains and losses upon disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised in the consolidated statement of profit and loss.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of repairs and maintenance are recognised in the consolidated statement of profit and loss as incurred.

Items of property, plant and equipment acquired through exchange of non-monetary assets are measured at fair value, unless the exchange transaction lacks commercial substance or the fair value of either the asset received or asset given up is not reliably measurable, in which case the asset exchanged is recorded at the carrying amount of the asset given up.

### Depreciation

Depreciation is recognised in the consolidated statement of profit and loss on a straight line basis over the estimated useful lives of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

Leasehold improvements are depreciated over the period of the lease agreement or the useful life, whichever is shorter.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and, if expectations differ from previous estimates, the change(s) are accounted for as a change in an accounting estimate in accordance with Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

The estimated useful lives are as follows:

	YEARS
Buildings	
- Factory and administrative buildings	20 to 50
- Ancillary structures	3 to 15
Plant and machinery	3 to 15
Furniture, fixtures and office equipment	3 to 10
Vehicles	4 to 5

Schedule II to the Companies Act, 2013 ("Schedule") prescribes the useful lives for various classes of tangible assets. For certain class of assets, based on the technical evaluation and assessment, the Company believes that the useful lives adopted by it best represent the period over which an asset is expected to be available for use. Accordingly, for these assets, the useful lives estimated by the Company are different from those prescribed in the Schedule.

Software for internal use, which is primarily acquired from third-party vendors and which is an integral part of a tangible asset, including consultancy charges for implementing the software, is capitalised as part of the related tangible asset. Subsequent costs associated with maintaining such software are recognised as expense as incurred. The capitalised costs are amortised over the estimated useful life of the software or the remaining useful life of the tangible fixed asset, whichever is lower.

Advances paid towards the acquisition of property, plant and equipment outstanding at each reporting date is disclosed as capital advances under other non-current assets. The cost of property, plant and equipment not ready to use before such date are disclosed under capital work-in-progress. Assets not ready for use are not depreciated.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### l) Goodwill and other intangible assets

#### Recognition and measurement

Goodwill	<p>Goodwill represents the excess of consideration transferred, together with the amount of non-controlling interest in the acquiree, over the fair value of the identifiable net assets acquired.</p> <p>Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and any impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying value of the equity accounted investee.</p>
Other intangible assets	<p>Other intangible assets that are acquired by the Company and that have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.</p> <p>Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction, or, when applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Indian Accounting Standards.</p>
Research and development	<p>Expenditures on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding are recognised in the consolidated statement of profit and loss when incurred.</p> <p>Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the asset.</p> <p>The expenditures to be capitalised include the cost of materials and other costs directly attributable to preparing the asset for its intended use. Other development expenditures are recognised in the consolidated statement of profit and loss as incurred. As of 31 March 2018, none of the development expenditure amounts has met the aforesaid recognition criteria.</p>
Separate acquisition of intangible assets	<p>Payments to third parties that generally take the form of up-front payments and milestones for in-licensed products, compounds and intellectual property are capitalised. The Company's criteria for capitalisation of such assets are consistent with the guidance given in paragraph 25 of Indian Accounting Standard 38 ("Ind AS 38") (i.e., receipt of economic benefits out of the separately purchased transaction is considered to be probable).</p>
In-Process Research and Development assets ("IPR&D") or Intangible assets under development	<p>Acquired research and development intangible assets that are under development are recognised as In-Process Research and Development assets ("IPR&amp;D") or Intangible assets under development. IPR&amp;D assets are not amortised, but evaluated for potential impairment on an annual basis or when there are indications that the carrying value may not be recoverable.</p>
<b>Subsequent expenditure</b>	
Other intangible assets	<p>Subsequent expenditures are capitalised only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures, including expenditures on internally generated goodwill and brands, is recognised in the consolidated statement of profit and loss as incurred.</p>
In-Process Research and Development assets ("IPR&D") or Intangible assets under development	<p>Subsequent expenditure on an in-process research or development project acquired separately or in a business combination and recognised as an intangible asset is:</p> <ol style="list-style-type: none"> <li>recognised as an expense when incurred, if it is research expenditure;</li> <li>recognised as an expense when incurred, if it is development expenditure that does not satisfy the criteria for recognition as an intangible asset in paragraph 57 of Ind AS 38; and</li> <li>added to the carrying amount of the acquired in-process research or development project, if it is development expenditure that satisfies the recognition criteria in paragraph 57 of Ind AS 38.</li> </ol>

#### Amortisation

Amortisation is recognised in the consolidated statement of profit and loss on a straight-line basis over the estimated useful lives of intangible assets or on any other basis that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity. Intangible assets that are not available for use are amortised from the date they are available for use.

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The estimated useful lives are as follows:

	YEARS
Trademarks with finite useful life	3 to 12
Product related intangibles	5 to 15
Customer contracts	1 to 11
Technical know-how	3 to 13
Other intangibles	3 to 15

The amortisation period and the amortisation method for intangible assets with a finite useful life are reviewed at each reporting date.

Intangible assets relating to products in development, other intangible assets not available for use and intangible assets having indefinite useful life are subject to impairment testing at each reporting date. All other intangible assets are tested for impairment when there are indications that the carrying value may not be recoverable. All impairment losses are recognised immediately in the consolidated statement of profit and loss.

### De-recognition of intangible assets

Intangible assets are de-recognised either on their disposal or where no future economic benefits are expected from their use. Losses arising on such de-recognition are recorded in the consolidated statement of profit and loss, and are measured as the difference between the net disposal proceeds, if any, and the carrying amount of respective intangible assets as on the date of de-recognition.

### m) Leases

At the inception of each lease, the lease arrangement is classified as either a finance lease or an operating lease, based on the substance of the lease arrangement. A lease that transfers substantially all the risks and rewards incidental to ownership to the lessee is classified as a finance lease. All other leases are classified as operating leases.

#### Finance leases

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

#### Operating leases

Other leases are operating leases, and the leased assets are not recognised on the Company's consolidated balance sheet. Payments made under operating leases are recognised in the consolidated statement of profit and loss on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases.

Operating lease incentives received from the landlord are recognised as a reduction of rental expense on a straight line basis over the lease term.

### n) Inventories

Inventories consist of raw materials, stores and spares, work-in-progress and finished goods and are measured at the lower of cost and net realisable value. The cost of all categories of inventories is based on the weighted average method. Cost includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of finished goods and work-in-progress, cost includes an appropriate share of overheads based on normal operating capacity. Stores and spares, that do not qualify to be recognised as property, plant and equipment, consists of packing materials, engineering spares (such as machinery spare parts) and consumables (such as lubricants, cotton waste and oils), which are used in operating machines or consumed as indirect materials in the manufacturing process.

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

The factors that the Company considers in determining the allowance for slow moving, obsolete and other non-saleable inventory include estimated shelf life, planned product discontinuances, price changes, ageing of inventory and introduction of competitive new products, to the extent each of these factors impact the Company's business and markets. The Company considers all these factors and adjusts the inventory provision to reflect its actual experience on a periodic basis.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### o) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, an impairment test is performed each year at 31 March.

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

The goodwill acquired in a business combination is, for the purpose of impairment testing, allocated to cash-generating units that are expected to benefit from the synergies of the combination.

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Goodwill that forms part of the carrying amount of an investment in an associate is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

An impairment loss in respect of equity accounted investee is measured by comparing the recoverable amount of investment with its carrying amount. An impairment loss is recognised in the consolidated statement of profit and loss, and reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

### p) Employee benefits

#### Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### Defined contribution plans

The Company's contributions to defined contribution plans are charged to the consolidated statement of profit and loss as and when the services are received from the employees.

#### Defined benefit plans

The liability in respect of defined benefit plans and other post-employment benefits is calculated using the projected unit credit method consistent with the advice of qualified actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related defined benefit obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used. The current service cost of the defined benefit plan, recognised in the consolidated statement of profit and loss in employee benefit expense, reflects the increase in the defined benefit obligation resulting from employee service in the current year, benefit changes, curtailments and settlements. Past service costs are recognised immediately in income. The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the consolidated statement of profit and loss. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

#### Termination benefits

Termination benefits are recognised as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

*(All amounts in Indian Rupees millions, except share data and where otherwise stated)*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Termination benefits for voluntary redundancies are recognised as an expense if the Company has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

### Other long-term employee benefits

The Company's net obligation in respect of other long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and previous periods. That benefit is discounted to determine its present value. Re-measurements are recognised in the consolidated statement of profit and loss in the period in which they arise.

### Compensated absences

The Company's current policies permit certain categories of its employees to accumulate and carry forward a portion of their unutilised compensated absences and utilise them in future periods or receive cash in lieu thereof in accordance with the terms of such policies. The Company measures the expected cost of accumulating compensated absences as the additional amount that the Company incurs as a result of the unused entitlement that has accumulated at the balance sheet date. Such measurement is based on actuarial valuation as at the balance sheet date carried out by a qualified actuary. Re-measurements are recognised in the consolidated statement of profit and loss in the period in which they arise.

### Equity settled share-based payments

The grant date fair value of options granted to employees is recognised as an employee expense in the consolidated statement of profit and loss, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. The expense is recorded for each separately vesting portion of the award as if the award was, in substance, multiple awards. The increase in equity recognised in connection with share-based payment transaction is presented as a separate component in equity under "share-based payment reserve". The amount recognised as an expense is adjusted to reflect the actual number of stock options that vest.

### Cash settled share-based payments

The fair value of the amount payable to employees in respect of share-based payment transactions which are settled in cash is recognised as an expense, with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The liability is re-measured at each reporting date and at the settlement date based on the fair value of the share-based payment transaction. Any changes in the liability are recognised in the consolidated statement of profit and loss.

### q) Provisions, contingent liabilities and contingent assets

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

### Restructuring

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

### Onerous contracts

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

### Reimbursement rights

Expected reimbursements for expenditures required to settle a provision are recognised only when receipt of such reimbursements is virtually certain. Such reimbursements are recognised as a separate asset in the balance sheet, with a corresponding credit to the specific expense for which the provision has been made.

### Contingent liabilities

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 a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

### Contingent assets

Contingent assets are not recognised in the consolidated financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### r) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### Financial assets

##### *Initial recognition and measurement*

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

##### *Subsequent measurement*

For purposes of subsequent measurement, financial assets are classified in four categories:

- Debt instruments at amortised cost;
- Debt instruments at fair value through other comprehensive income (FVTOCI);
- Debt instruments, derivatives and equity instruments at fair value through profit or loss (FVTPL); and
- Equity instruments measured at fair value through other comprehensive income (FVTOCI).

##### *Debt instruments at amortised cost*

A 'debt instrument' is measured at the amortised cost if both the following conditions are met:

- a) The asset is held within a business model whose objective is to hold assets for collecting contractual cash flows; and
- b) Contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in other income in the consolidated statement of profit and loss. The losses arising from impairment are recognised in the consolidated statement of profit and loss. This category generally applies to trade and other receivables.

##### *Debt instrument at FVTOCI*

A 'debt instrument' is classified as at the FVTOCI if both of the following criteria are met:

- a) The objective of the business model is achieved both by collecting contractual cash flows and selling the financial assets; and
- b) The asset's contractual cash flows represent SPPI.

Debt instruments included within the FVTOCI category are measured initially as well as at each reporting date at fair value. Fair value movements are recognised in the other comprehensive income (OCI). However, the Company recognises interest income, impairment losses & reversals and foreign exchange gain or loss in the consolidated statement of profit and loss. On derecognition of the asset, cumulative gain or loss previously recognised in OCI is reclassified to the consolidated statement of profit and loss. Interest earned whilst holding FVTOCI debt instrument is reported as interest income using the EIR method.

##### *Debt instrument at FVTPL*

FVTPL is a residual category for debt instruments. Any debt instrument, which does not meet the criteria for categorisation as at amortised cost or as FVTOCI, is classified as at FVTPL.

In addition, the Group may elect to designate a debt instrument, which otherwise meets amortised cost or FVTOCI criteria, as at FVTPL. However, such election is allowed only if doing so reduces or eliminates a measurement or recognition inconsistency (referred to as 'accounting mismatch'). The Group has not designated any debt instrument as at FVTPL.

Debt instruments included within the FVTPL category are measured at fair value with all changes recognised in the consolidated statement of profit and loss.

##### *Equity investments*

All equity investments in scope of Ind AS 109 are measured at fair value. Equity instruments which are held for trading and contingent consideration recognised by an acquirer in a business combination to which Ind AS103 applies are classified as at FVTPL. For all other equity instruments, the Group may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value. The Group makes such election on an instrument by-instrument basis. The classification is made on initial recognition and is irrevocable.

*(All amounts in Indian Rupees millions, except share data and where otherwise stated)*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

If the Group decides to classify an equity instrument as at FVTOCI, then all fair value changes on the instrument, excluding dividends, are recognised in the OCI. There is no recycling of the amounts from OCI to the consolidated statement of profit and loss, even on sale of investment. However, the Group may transfer the cumulative gain or loss within equity.

Equity instruments included within the FVTPL category are measured at fair value with all changes recognised in the consolidated statement of profit and loss.

### Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated balance sheet) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

### Impairment of trade receivables

In accordance with Ind AS 109, the Company applies expected credit loss (ECL) model for measurement and recognition of impairment loss on the trade receivables or any contractual right to receive cash or another financial asset that result from transactions that are within the scope of Ind AS 18.

For this purpose, the Company follows 'simplified approach' for recognition of impairment loss allowance on the trade receivable balances. The application of simplified approach does not require the Company to track changes in credit risk. Rather, it recognises impairment loss allowance based on lifetime ECLs at each reporting date, right from its initial recognition.

As a practical expedient, the Company uses a provision matrix to determine impairment loss allowance on portfolio of its trade receivables. The provision matrix is based on its historically observed default rates over the expected life of the trade receivables and is adjusted for forward-looking estimates. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

### Financial liabilities

#### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts and derivative financial instruments.

#### *Subsequent measurement*

The measurement of financial liabilities depends on their classification, as described below:

#### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by Ind AS 109. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the consolidated statement of profit and loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated as such at the initial date of recognition, and only if the criteria in Ind AS 109 are satisfied. For liabilities designated as FVTPL, fair value gains/losses attributable to changes in own credit risk are recognised in OCI. These gains/losses are not subsequently transferred to the consolidated statement of profit and loss. However, the Group may transfer the cumulative gain or loss within equity.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

All other changes in fair value of such liability are recognised in the consolidated statement of profit and loss. The Group has not designated any financial liability as fair value through profit and loss.

### Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the consolidated statement of profit and loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of profit and loss.

### Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of profit and loss.

### Derivative financial instruments

The Company is exposed to exchange rate risk which arises from its foreign exchange revenues and expenses, primarily in US dollars, UK pounds sterling, Russian roubles, Brazilian reals, South African rands ("ZAR"), Romanian new leus ("RON") and Euros, and foreign currency debt in US dollars, Russian roubles, Ukrainian hryvnias, and Euros.

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

### Hedges of highly probable forecasted transactions

The Company classifies its derivative financial instruments that hedge foreign currency risk associated with highly probable forecasted transactions as cash flow hedges and measures them at fair value. The effective portion of such cash flow hedges is recorded in the Company's hedging reserve as a component of equity and re-classified to the consolidated statement of profit and loss as revenue in the period corresponding to the occurrence of the forecasted transactions. The ineffective portion of such cash flow hedges is recorded in the consolidated statement of profit and loss as finance costs immediately.

The Company also designates certain non-derivative financial liabilities, such as foreign currency borrowings from banks, as hedging instruments for hedge of foreign currency risk associated with highly probable forecasted transactions. Accordingly, the Company applies cash flow hedge accounting to such relationships. Remeasurement gain/loss on such non-derivative financial liabilities is recorded in the Company's hedging reserve as a component of equity and reclassified to the consolidated statement of profit and loss as revenue in the period corresponding to the occurrence of the forecasted transactions.

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 recognised in other comprehensive income, remains there until the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in the consolidated statement of profit and loss.

### Hedges of recognised assets and liabilities

Changes in the fair value of derivative contracts that economically hedge monetary assets and liabilities in foreign currencies, and for which no hedge accounting is applied, are recognised in the consolidated statement of profit and loss. The changes in fair value of such derivative contracts, as well as the foreign exchange gains and losses relating to the monetary items, are recognised in the consolidated statement of profit and loss.

### Hedges of changes in the interest rates

Consistent with its risk management policy, the Company uses interest rate swaps to mitigate the risk of changes in interest rates. The Company does not use them for trading or speculative purposes.

#### s) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value. For this purpose, "short-term" means investments having maturity of three months or less from the date of investment. Bank overdrafts that are repayable on demand and form an integral part of our cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

#### t) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. Refer Note 2.24 for segment information presented.

*(All amounts in Indian Rupees millions, except share data and where otherwise stated)*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### u) Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using effective interest method, less provision for impairment.

### v) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are presented as current liabilities unless payment is not due within twelve months after the reporting period. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 1.5 Determination of fair values

The Company's accounting policies and disclosures require the determination of fair value, for certain financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

#### a) Property, plant and equipment

Property, plant and equipment, if acquired in a business combination or through an exchange of non-monetary assets, is measured at fair value on the acquisition date. For this purpose, fair value is based on appraised market values and replacement cost.

#### b) Intangible assets

The fair value of brands, technology related intangibles, and patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of these brands, technology related intangibles, patents or trademarks being owned (the "relief of royalty method"). The fair value of customer related, product related and other intangibles acquired in a business combination has been determined using the multi-period excess earnings method after deduction of a fair return on other assets that are part of creating the related cash flows.

#### c) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

#### d) Investments in equity and debt securities and units of mutual funds

The fair value of marketable equity and debt securities is determined by reference to their quoted market price at the reporting date. For debt securities where quoted market prices are not available, fair value is determined using pricing techniques such as discounted cash flow analysis.

In respect of investments in mutual funds, the fair values represent net asset value as stated by the issuers of these mutual fund units in the published statements. Net asset values represent the price at which the issuer will issue further units in the mutual fund and the price at which issuers will redeem such units from the investors.

Accordingly, such net asset values are analogous to fair market value with respect to these investments, as transactions of these mutual funds are carried out at such prices between investors and the issuers of these units of mutual funds.

#### e) Derivatives

The fair value of foreign exchange forward contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds). The fair value of foreign currency option and swap contracts and interest rate swap contracts is determined based on the appropriate valuation techniques, considering the terms of the contract.

#### f) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements. In respect of the Company's borrowings that have floating rates of interest, their fair value approximates carrying value.

#### g) Share-based payment transactions

The fair value of employee stock options is measured using the Black-Scholes-Merton valuation model. Measurement inputs include share price on grant date, exercise price of the instrument, expected volatility (based on weighted average historical volatility), expected life of the instrument (based on historical experience), expected dividends, and the risk free interest rate (based on government bonds).

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 2 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.1 PROPERTY, PLANT AND EQUIPMENT

PARTICULARS	GROSS CARRYING VALUE				ACCUMULATED DEPRECIATION				NET CARRYING VALUE		
	AS AT 1 APRIL 2017	ADDITIONS	DISPOSALS	FOREIGN EXCHANGE ADJUSTMENTS	AS AT 31 MARCH 2018	FOR THE YEAR	IMPAIRMENT	DISPOSALS	FOREIGN EXCHANGE ADJUSTMENTS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2018
Land	3,948	324	7	35	4,300	-	-	-	-	39	4,261
Buildings											
Owned	19,672	977	40	33	20,642	874	-	30	21	5,650	14,992
Assets taken on finance lease	835	-	-	114	949	45	-	-	50	359	590
Leasehold improvements	591	54	-	-	645	49	-	-	-	248	397
Plant and machinery											
Owned	61,742	5,457	1,063	374	66,510	6,445	-	992	243	38,535	27,975
Assets taken on finance lease	16	-	-	-	16	-	-	-	-	16	-
Furniture, fixtures and office equipment											
Owned	5,065	508	154	35	5,454	573	-	86	31	4,323	1,131
Assets taken on finance lease	1	-	-	-	1	-	-	-	-	1	-
Vehicles											
Owned	390	293	4	1	680	88	-	4	1	302	378
Assets taken on finance lease	345	-	256	-	89	176	-	255	-	80	9
<b>TOTAL</b>	<b>92,605</b>	<b>7,613</b>	<b>1,524</b>	<b>592</b>	<b>99,286</b>	<b>8,250</b>	<b>-</b>	<b>1,367</b>	<b>346</b>	<b>49,553</b>	<b>49,733</b>

PARTICULARS	GROSS CARRYING VALUE				ACCUMULATED DEPRECIATION				NET CARRYING VALUE		
	AS AT 1 APRIL 2016	ADDITIONS	DISPOSALS	FOREIGN EXCHANGE ADJUSTMENTS	AS AT 31 MARCH 2017	FOR THE YEAR	IMPAIRMENT (a)	DISPOSALS	FOREIGN EXCHANGE ADJUSTMENTS	AS AT 31 MARCH 2017	AS AT 31 MARCH 2017
Land	3,906	98	-	(56)	3,948	-	39	-	-	39	3,909
Buildings											
Owned	17,409	2,387	34	(90)	19,672	787	213	23	(39)	4,785	14,887
Assets taken on finance lease	896	-	-	(61)	835	44	-	-	(24)	264	571
Leasehold improvements	582	9	-	-	591	61	-	-	-	199	392
Plant and machinery											
Owned	53,646	9,095	521	(478)	61,742	5,950	69	485	(281)	32,839	28,903
Assets taken on finance lease	17	-	-	(1)	16	2	-	-	(1)	16	-
Furniture, fixtures and office equipment											
Owned	4,416	775	89	(37)	5,065	608	10	85	(29)	3,805	1,260
Assets taken on finance lease	1	-	-	-	1	-	-	-	-	1	-
Vehicles											
Owned	406	97	110	(3)	390	117	-	104	(1)	217	173
Assets taken on finance lease	356	-	11	-	345	2	-	11	-	159	186
<b>TOTAL</b>	<b>81,635</b>	<b>12,461</b>	<b>765</b>	<b>(726)</b>	<b>92,605</b>	<b>7,571</b>	<b>331</b>	<b>708</b>	<b>(375)</b>	<b>42,324</b>	<b>50,281</b>

- a) During the year ended 31 March 2017, the Company witnessed a significant decline in the expected cash flows of some of the products forming part of a cash generating unit ("CGU") under its Global Generics segment. Consequently, the Company, following the guidance under Ind AS 36 "Impairment of assets", determined that the estimated recoverable amount of the CGU is lower than its carrying cost. Accordingly, an amount of ₹ 335 (including ₹ 4 towards capital work-in-progress) was recorded as an impairment during the year ended 31 March 2017. The recoverable amounts of the above cash generating units have been assessed using a value-in-use model. Key assumptions on which the Company has based its determinations of value-in-use include: (i) Estimated cash flows for the remaining useful life; (ii) Terminal value is considered to be zero; (iii) The post-tax discount rates used are based on the Company's weighted average cost of capital. The post-tax discount rates used was 6.68%. The pre-tax discount rates was 9.02%.
- b) During the year, the Company has capitalised borrowing costs of ₹ 70 (31 March 2017: ₹ 65) with respect to qualifying assets. The rate for capitalisation of interest costs for the years ended 31 March 2018 and 31 March 2017 was approximately 2.76% and 2.14% respectively.
- c) As of 31 March 2018 and 31 March 2017, the Company was committed to spend ₹ 3,788 and ₹ 5,256, respectively, under agreements to purchase property, plant and equipment. This amount is net of capital advances paid in respect of such purchase commitments.

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2.2 GOODWILL AND OTHER INTANGIBLE ASSETS

PARTICULARS	GROSS CARRYING VALUE				ACCUMULATED AMORTISATION/IMPAIRMENT				NET CARRYING VALUE		
	AS AT 1 APRIL 2017	ADDITIONS (b)	DISPOSALS	FOREIGN EXCHANGE ADJUSTMENTS	AS AT 31 MARCH 2018	AS AT 1 APRIL 2017	FOR THE IMPAIRMENT YEAR (a)	DISPOSALS	FOREIGN EXCHANGE ADJUSTMENTS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2018
Goodwill	33,000	-	-	4,479	37,479	28,237	-	-	3,911	32,148	5,331
Customer contracts	267	-	-	-	267	267	-	-	-	267	-
Copyrights and Patents (including marketing/distribution rights)	15,341	143	-	925	16,409	12,721	73	-	922	13,716	2,693
Technical know-how	1,922	-	-	6	1,928	1,024	314	-	5	1,343	585
Product related intangibles	13,812	2,605	-	87	16,504	4,872	1,922	53	24	6,871	9,633
Trademarks with finite useful life	1,148	-	-	-	1,148	32	-	-	-	32	1,116
Other intangibles	1,229	113	-	-	1,342	540	213	-	-	753	589
<b>TOTAL</b>	<b>66,719</b>	<b>2,861</b>	-	<b>5,497</b>	<b>75,077</b>	<b>47,693</b>	<b>2,522</b>	<b>53</b>	<b>4,862</b>	<b>55,130</b>	<b>19,947</b>
PARTICULARS	GROSS CARRYING VALUE				ACCUMULATED AMORTISATION/IMPAIRMENT				NET CARRYING VALUE		
	AS AT 1 APRIL 2016	ADDITIONS (b)	DISPOSALS	FOREIGN EXCHANGE ADJUSTMENTS	AS AT 31 MARCH 2017	AS AT 1 APRIL 2016	FOR THE IMPAIRMENT YEAR (a)	DISPOSALS	FOREIGN EXCHANGE ADJUSTMENTS	AS AT 31 MARCH 2017	AS AT 31 MARCH 2017
Goodwill	35,252	10	-	(2,262)	33,000	30,602	-	-	(2,365)	28,237	4,763
Customer contracts	664	-	389	(8)	267	664	-	389	(8)	267	-
Copyrights and Patents (including marketing/distribution rights)	16,357	154	-	(1,170)	15,341	13,716	62	-	(1,057)	12,721	2,620
Technical know-how	1,932	27	-	(37)	1,922	809	227	-	(12)	1,024	898
Product related intangibles	13,541	561	252	(38)	13,812	2,983	2,111	40	(10)	4,872	8,940
Trademarks with finite useful life	-	1,148	-	-	1,148	-	-	32	-	32	1,116
Other intangibles	816	456	43	-	1,229	288	295	-	-	540	689
<b>TOTAL</b>	<b>68,562</b>	<b>2,356</b>	<b>684</b>	<b>(3,515)</b>	<b>66,719</b>	<b>49,062</b>	<b>2,695</b>	<b>72</b>	<b>(3,452)</b>	<b>47,693</b>	<b>19,026</b>

a) As a result of the Company's decision to discontinue a few products pertaining to its Global Generics segment, product related intangibles of ₹ 20 and ₹ 33, were recorded as impairment loss for the year ended 31 March 2018 under "selling and other expenses" in the consolidated statement of profit and loss.

b) Additions to goodwill, for the year ended 31 March 2017, represents goodwill arising on acquisition of Imperial Credit Private Limited.

c) During the year ended 31 March 2017, the Company derecognised certain intangible assets which were fully amortised and from which no future economic benefits were expected, either from use or from their disposal. Accordingly, an amount of ₹ 684 was reduced both from gross carrying value and accumulated amortisation.

d) Impairment loss of ₹ 72 pertains to a write down of certain brands and product related intangibles forming part of the Company's Global Generics segment. The same was recorded under "selling and other expenses" in the consolidated statement of profit and loss.

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2.3 INTANGIBLE ASSETS UNDER DEVELOPMENT

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Opening balance at the beginning of the year	27,150	1,096
Add: Additions during the year (a)	523	26,858
Less: Capitalisations during the year (b)	(778)	-
Less: Impairments during the year (c)	-	(38)
Foreign exchange adjustments	132	(766)
<b>Closing balance at the end of the year</b>	<b>27,027</b>	<b>27,150</b>

- a) Additions during the year ended 31 March 2017 primarily consist of
- ₹ 23,366, representing the consideration paid to Teva Pharmaceutical Industries Limited ("Teva") to acquire eight Abbreviated New Drug Applications ("ANDAs") in the United States (Refer note 2.38).
  - ₹ 3,159, representing the consideration for the acquisition of exclusive US rights for the development and commercialisation of a clinical stage oral new chemical entity from XenoPort, Inc.
- b) During the year ended 31 March 2018, the Company capitalised the product for one of the eight ANDAs acquired from Teva (ezetimibe and simvastatin tablets).
- c) As a result of the Company's decision to discontinue further development of certain intangibles assets under development assets pertaining to its Proprietary Products segment and PSAI segment, ₹ 27 and ₹ 11, respectively, were recorded as impairment loss for the year ended 31 March 2017 under "selling and other expenses" in the consolidated statement of profit and loss.
- d) The Company has capitalised borrowing costs of ₹ 458 (31 March 2017: ₹ 258) with respect to certain qualifying assets. The rate for capitalisation of interest cost for the years ended 31 March 2018 and 31 March 2017 was approximately ranged from 0.81% to 2.76% and from 0.91% to 2.14%, respectively.

## 2.4 FINANCIAL ASSETS

### 2.4 A INVESTMENTS

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
<b>Investments at fair value through OCI</b>		
Quoted equity shares (fully paid up)		
27,328,464 (31 March 2017: 27,328,464) equity shares of US \$ 0.01/- each of Curis, Inc. (Refer note 2.36)	1,164	4,927
120,000 (31 March 2017: 120,000) equity shares of ₹ 1/- each of State Bank of India (a)	30	35
<b>Total investments at fair value through OCI (A)</b>	<b>1,194</b>	<b>4,962</b>
<b>Investments at fair value through profit or loss</b>		
<b>I. Investment in unquoted equity shares</b>		
8,859 (31 March 2017: 8,859) equity shares of ₹ 100/- each of Jeedimetla Effluent Treatment Limited, India	1	1
Ordinary shares of Biomed Russia Limited, Russia (b)	-	-
200,000 (31 March 2017: 200,000) equity shares of ₹ 10/- each of Altek Engineering Limited, India	-	-
24,000 (31 March 2017: 24,000) equity shares of ₹ 100/- each of Progressive Effluent Treatment Limited, India	-	-
20,250 (31 March 2017: 20,250) equity shares of ₹ 10/- each of Shivalik Solid Waste Management Limited, India (c)	-	-
	<b>1</b>	<b>1</b>
<b>II. Investment in unquoted mutual funds (Refer note 2.30)</b>	<b>14,778</b>	<b>11,141</b>
<b>Total investments at fair value through profit or loss (I+II) (B)</b>	<b>14,779</b>	<b>11,142</b>
<b>Investments carried at amortised cost</b>		
<b>I. Investment in term deposit accounts (original maturity more than 3 months)</b>	<b>41</b>	<b>3,390</b>
<b>II. Investment in bonds</b>	<b>4,633</b>	<b>-</b>
<b>III. Investment in commercial paper</b>	<b>232</b>	<b>-</b>
<b>Total investments carried at amortised cost (C)</b>	<b>4,906</b>	<b>3,390</b>
<b>Total investments (A+B+C)</b>	<b>20,879</b>	<b>19,494</b>
Current	18,330	14,271
Non-current	2,549	5,223
	<b>20,879</b>	<b>19,494</b>

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.4 A INVESTMENTS (CONTINUED)

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Aggregate book value of quoted investments	1,194	4,962
Aggregate market value of quoted investments	1,194	4,962
Aggregate value of unquoted investments	19,685	14,532
Aggregate amount of impairment in value of investment in unquoted equity shares	-	-

- a) In respect of shares of State Bank of India, the share certificates were lost in transit during transfer. The Company has initiated necessary legal action at the appropriate courts.
- b) Shares held in Biomed Russia Limited, Russia are not denominated in number of shares as per the laws of the country.
- c) Rounded off to millions in the note above.

### 2.4 B TRADE RECEIVABLES

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Unsecured, considered good	40,696	38,196
Unsecured, considered doubtful	1,041	935
	41,737	39,131
Less: Allowance for credit loss (Refer note 2.34 (b))	(1,041)	(935)
	40,696	38,196
Current	40,527	37,986
Non-current	169	210
	40,696	38,196

### 2.4 C OTHER FINANCIAL ASSETS

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
I. Non-current assets		
Unsecured, considered good		
Security deposits	664	678
In term deposit accounts (remaining maturity more than 12 months)	-	13
Other assets	92	138
	756	829
II. Current assets		
Unsecured, considered good		
Claims receivable	362	680
Other assets*	1,171	752
	1,533	1,432

\* Includes interest accrued but not due, security deposits and other advances.

### 2.4 D DERIVATIVE INSTRUMENTS

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Foreign exchange forward contracts/option contracts	105	264
	105	264
Current	105	264
Non-current	-	-
	105	264



(All amounts in Indian Rupees millions, except share data and where otherwise stated)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.4 E CASH AND CASH EQUIVALENTS

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Balances with banks		
In current accounts	1,375	1,056
In EEFC accounts	7	9
Deposit accounts (original maturity less than 3 months)	1,182	2,733
Cash on hand	2	3
Other bank balances		
In unclaimed dividend accounts	56	47
In unclaimed fractional share pay order accounts	1	1
In unclaimed debentures and debenture interest account	15	16
<b>Total cash and cash equivalents</b>	<b>2,638</b>	<b>3,865</b>
Less: Bank overdraft (Refer note 2.8 B)	(96)	(87)
Cash and cash equivalents for the purpose of consolidated statement of cash flows	<b>2,542</b>	<b>3,778</b>

Cash and cash equivalents included restricted cash of ₹ 86 and ₹ 177 respectively, as of 31 March 2018 and 31 March 2017, which consisted of:

- ₹ 72 as of 31 March 2018 and ₹ 64 as of 31 March 2017, representing amounts in the Company's unclaimed dividend and debenture interest accounts;
- ₹ 0.1 as of 31 March 2018 and ₹ 38 as of 31 March 2017, representing cash and cash equivalents of the Company's subsidiary in Venezuela, which are subject to foreign exchange controls;
- ₹ 13 as of 31 March 2018 and ₹ 49 as of 31 March 2017, representing a portion of the purchase consideration, deposited in an escrow account, pursuant to an acquisition of an intangible asset; and
- ₹ 0.7 as of 31 March 2018 and ₹ 26 as of 31 March 2017, representing other restricted cash amounts.

### 2.5 OTHER ASSETS

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
<b>A. Non-current assets</b>		
<i>Unsecured, considered good</i>		
Capital advances	248	545
Others	276	194
	<b>524</b>	<b>739</b>
<b>B. Current assets</b>		
<i>Unsecured, considered good</i>		
Balances with statutory authorities	9,583	7,672
Prepaid expenses	761	712
Others*	2,418	2,107
<i>Unsecured, considered doubtful</i>		
Other advances	86	77
	<b>12,848</b>	<b>10,568</b>
Less: Allowance for doubtful advances	(86)	(77)
	<b>12,762</b>	<b>10,491</b>

\* Others include advances to material suppliers, employees and other advances.

### 2.6 INVENTORIES

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Raw materials (includes in transit 31 March 2018: ₹ 18; 31 March 2017: ₹ 12)	7,279	7,213
Work-in-progress	7,190	6,626
Finished goods	6,875	8,364
Stock-in-trade	5,351	4,011
Stores, spares and packing materials	2,394	2,314
	<b>29,089</b>	<b>28,528</b>

a) During the year, the Company recorded inventory write-down of ₹ 2,946 (31 March 2017 : ₹ 3,085). This is included as part of cost of materials consumed.

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2.7 SHARE CAPITAL

PARTICULARS	AS AT	AS AT
	31 MARCH 2018	31 MARCH 2017
<b>Authorised share capital</b>		
240,000,000 equity shares of ₹ 5/- each (31 March 2017: 240,000,000)	1,200	1,200
<b>Issued equity capital</b>		
165,911,107 equity shares of ₹ 5/- each fully paid-up (31 March 2017: 165,741,913)	830	829
<b>Subscribed and fully paid-up</b>		
165,910,907 equity shares of ₹ 5/- each fully paid-up (31 March 2017: 165,741,713)	830	829
Add: Forfeited share capital (e)	-	-
	830	829

a) Reconciliation of the equity shares outstanding is set out below:

PARTICULARS	FOR THE YEAR ENDED		FOR THE YEAR ENDED	
	31 MARCH 2018		31 MARCH 2017	
	NO. OF EQUITY SHARES	AMOUNT	NO. OF EQUITY SHARES	AMOUNT
Number of shares outstanding at the beginning of the year	165,741,713	829	170,607,653	853
Add: Equity shares issued pursuant to employee stock option plan	169,194	1	211,564	1
Less: Equity shares bought back (f)	-	-	(5,077,504)	(25)
<b>Number of shares outstanding at the end of the year</b>	<b>165,910,907</b>	<b>830</b>	<b>165,741,713</b>	<b>829</b>

b) Terms/rights attached to the equity shares:

The Company has only one class of equity shares having a par value of ₹ 5 per share. Each holder of equity shares is entitled to one vote per share. The Company declares and pays dividends in Indian rupees. During the year ended 31 March 2018, the amount of per share dividend proposed as distributions to equity shareholders is ₹ 20 (31 March 2017 : ₹ 20). The dividend proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing Annual General Meeting and if approved would result in a cash outflow of approximately ₹ 4,000 including dividend distribution tax. In the event of liquidation, the equity shareholders are eligible to receive the remaining assets of the Company after distribution of all preferential amounts, in proportion to their shareholding.

c) Details of shareholders holding more than 5% shares in the Company:

PARTICULARS	AS AT		AS AT	
	31 MARCH 2018		31 MARCH 2017	
	NO. OF EQUITY SHARES HELD	% HOLDING IN THE CLASS	NO. OF EQUITY SHARES HELD	% HOLDING IN THE CLASS
Dr. Reddy's Holdings Limited	41,083,500	24.76	40,627,000	24.51
First State Investments Management (UK) Limited, First State Investments International Limited and their associates*	10,726,942	6.47	14,907,551	8.99

\* Does not include ADR holding.

d) 320,544 (31 March 2017: 330,142) stock options are outstanding and are to be issued by the Company upon exercise of the same in accordance with the terms of exercise under the "Dr. Reddy's Employees Stock Option Plan 2002" and 107,308 (31 March 2017: 88,141) stock options are outstanding and are to be issued by the Company upon exercise of the same in accordance with the terms of exercise under the "Dr. Reddy's Employees ADR Stock Option Plan 2007". (Refer note 2.27)

e) Represents 200 equity shares of ₹ 5/- each, amount paid-up ₹ 500/- (rounded off to millions in the note above) forfeited due to non-payment of allotment money.

f) During the year ended 31 March 2017, the Company bought back and extinguished 5,077,504 equity shares during the previous year under the buy-back of equity shares plan approved by the shareholders on 1 April 2016. (Refer note 2.44)

Aggregate number of shares bought back during the period of five years immediately preceding the reporting date:

PARTICULARS	YEAR ENDED 31 MARCH				
	2018	2017	2016	2015	2014
Ordinary shares of ₹ 5 each	-	5,077,504	-	-	-

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2.8 FINANCIAL LIABILITIES

### 2.8 A NON-CURRENT BORROWINGS

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
<b>Unsecured</b>		
Long-term loans from banks (a)	24,459	4,852
<b>Secured</b>		
Long-term maturities of finance lease obligation (b)	630	597
	<b>25,089</b>	<b>5,449</b>

### 2.8 B CURRENT BORROWINGS

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
<b>From Banks</b>		
<b>Unsecured</b>		
Packing credit loans (c)	21,008	18,698
Bank overdraft	96	87
Other short-term borrowings (d)	4,458	24,841
	<b>25,562</b>	<b>43,626</b>

a) (i) During the year, the Company entered into a refinancing arrangement with certain financial institutions relating to the short-term borrowing of US\$ 350 million. Pursuant to such arrangement, the Company repaid the short-term borrowing of US\$ 350 million and incurred long-term borrowings of US\$ 250 million, carrying interest rate of 1 month LIBOR plus 45 bps and EUR 42 million carrying interest rate of 0.81%. The aforesaid loans are repayable over a 36 month period commencing at the end of the 24th month and continuing through the 60th month following the date of the loan agreement. The balance of other long-term loan, outstanding as at 31 March 2018, comprises of External Commercial Borrowing, carrying interest rate of 1 month LIBOR plus 82.7 bps and is repayable in three equal installments in the years ending 31 March 2020 and 31 March 2021.

(ii) External Commercial Borrowing, outstanding as at 31 March 2017, carrying interest rate of 1 month LIBOR plus 82.7 bps and is repayable in three equal installments in the years ending 31 March 2020 and 31 March 2021.

As per the loan arrangements, the Company is required to comply with certain financial covenants and the Company was in compliance with such covenants as at 31 March 2018 and 31 March 2017.

b) Finance lease obligations represent lease rentals payable for buildings, plant and machinery and vehicles leased by the Company (Refer note 2.32).

c) (i) Packing credit loans, for the year ended 31 March 2018, comprised of US\$ denominated loans carrying interest rates of 1 Month LIBOR minus 30 to plus 30 bps, RUB denominated loans carrying fixed interest rate of 6.75%, and INR denominated loans carrying fixed interest rate of 6.00% and are repayable within 6 to 12 months from the date of drawdown.

(ii) Packing credit loans, for the year ended 31 March 2017, comprised of US\$ denominated loans carrying interest rates of 1 Month LIBOR minus 30 to plus 1 bps, RUB denominated loans carrying fixed interest rate of 9.95%, and INR denominated loans carrying fixed interest rate of 6.92% to 6.95% and Indian Treasury Bill plus 30 bps and are repayable within 6 to 12 months from the date of drawdown.

d) (i) Other short-term borrowings as at 31 March 2018 comprises of US\$ 53.5 million loan carrying interest rate of 1 month/3months LIBOR plus 65 to 85 bps, RUB 700 million loan carrying fixed interest rate of 8.20% and UAH 73 million loan carrying interest rate of 18.00% and are repayable in the next financial year.

(ii) Other short-term borrowings as at 31 March 2017 comprises of US\$ 360 million loan carrying interest rate of 1 Month LIBOR plus 42 bps and RUB 1,300 million loan carrying fixed interest rate of 10.48% and are repayable in the next financial year.

e) The Company had unutilised credit limits of ₹ 24,046 and ₹ 21,156 as of 31 March 2018 and 31 March 2017, respectively, from its banks for working capital requirements. The Company has the right to draw upon these lines of credit based on its working capital requirements.

f) Reconciliation of liabilities arising from financing activities\*

PARTICULARS	NON-CURRENT BORROWINGS	CURRENT BORROWINGS	TOTAL
Opening balance at the beginning of the year	5,559	43,539	49,098
Borrowings made during the year	19,065	47,564	66,629
Borrowings repaid during the year	(158)	(65,589)	(65,747)
Effect of changes in foreign exchange rates	747	(48)	699
Others	(61)	-	(61)
<b>Closing balance at the end of the year</b>	<b>25,152</b>	<b>25,466</b>	<b>50,618</b>

\* Aforesaid reconciliation does not include movement in bank overdraft and includes current maturities of finance lease obligations.

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.8 C OTHER FINANCIAL LIABILITIES

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
I. Other long-term liabilities	144	183
	<b>144</b>	<b>183</b>
II. Other current financial liabilities		
Current maturities of finance lease obligations	63	110
Due to capital creditors	2,723	2,848
Interest accrued but not due on loans	37	39
Accrued expenses	14,682	13,652
Trade and security deposits received	190	203
Unclaimed dividends, debentures and debenture interest (a)	71	63
Others	1,731	1,825
	<b>19,497</b>	<b>18,740</b>
Current	19,497	18,740
Non-current	144	183
	<b>19,641</b>	<b>18,923</b>

a) Unclaimed amounts are transferred to Investor Protection and Education Fund after seven years from the due date.

### 2.8 D TRADE PAYABLES

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Due to micro, small and medium enterprises (a)	93	43
Others	13,252	10,526
	<b>13,345</b>	<b>10,569</b>

- a) (i) The principal amount remaining unpaid as at 31 March 2018 in respect of enterprises covered under the "Micro, Small and Medium Enterprises Development Act, 2006" (MSMED) is ₹ 93 (31 March 2017: ₹ 43). The interest amount computed based on the provisions under Section 16 of the MSMED is ₹ 0.00 (31 March 2017: ₹ 0.02) is remaining unpaid as of 31 March 2018. The interest amount that remained unpaid as at 31 March 2017 was paid fully during the current year.
- (ii) 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 (31 March 2017 : ₹ Nil).
- (iii) The list of undertakings covered under MSMED was determined by the Company on the basis of information available with the Company and has been relied upon by the auditors.

### 2.9 PROVISIONS

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
A. Non-current provisions		
Provision for employee benefits (Refer note 2.28)		
Long service award benefit plan	49	182
Pension, seniority and severance indemnity plans	188	172
Compensated absences	527	441
Other provisions (a)	53	47
	<b>817</b>	<b>842</b>
B. Current provisions		
Provision for employee benefits (Refer note 2.28)		
Gratuity	67	173
Long service award benefit plan	13	25
Pension, seniority and severance indemnity plans	9	5
Compensated absences	566	414
Other provisions (a)		
Allowance for sales returns	3,210	3,784
Others	522	724
	<b>4,387</b>	<b>5,125</b>

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.9 PROVISIONS (CONTINUED)

a) Details of changes in provisions are as follows:

PARTICULARS	ALLOWANCE FOR SALES RETURNS	OTHERS
Balance as at 1 April 2017	3,784	771
Provision made or reversed during the year	2,702	(37)
Provision used during the year	(3,303)	(166)
Effect of changes in foreign exchange rates	27	7
Balance as at 31 March 2018	3,210	575

### 2.10 OTHER LIABILITIES

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
<b>A. Non-current liabilities</b>		
Deferred revenue	2,697	3,166
Other non-current liabilities	92	85
	<b>2,789</b>	<b>3,251</b>
<b>B. Current liabilities</b>		
Advance from customers	360	310
Salary and bonus payable	2,434	1,701
Due to statutory authorities	915	554
Deferred revenue	622	509
Long-term incentive plan	-	622
Others	201	951
	<b>4,532</b>	<b>4,647</b>

### 2.11 SALES

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Sales (a)	138,022	138,663
	<b>138,022</b>	<b>138,663</b>

a) Post implementation of Goods and Services Tax ("GST") with effect from 1 July 2017, sales is disclosed net of GST. Sales for the year ended 31 March 2017 included excise duty of ₹ 939 which is now subsumed in the GST. Sales for the year ended 31 March 2018 includes excise duty of ₹ 173 upto 30 June 2017. Accordingly, sales for the year ended 31 March 2018 are not comparable with those of the previous year presented.

### 2.12 OTHER OPERATING INCOME

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Sale of spent chemicals	297	206
Scrap sales	168	216
Miscellaneous income (a)	317	730
	<b>782</b>	<b>1,152</b>

a) During the year ended 31 March 2017, the Company entered into an agreement with Galderma Laboratories, LP to settle the ongoing litigation relating to launch of a product in the United States of America. Pursuant to the settlement, the Company recorded an amount of ₹ 417 representing the consideration attributable to settlement of litigation.

### 2.13 OTHER INCOME

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Interest Income	540	505
Profit on sale of mutual funds, net	806	497
Fair value gain on financial instruments at fair value through profit or loss	75	700
Foreign exchange gain, net	48	-
Miscellaneous income	83	13
	<b>1,552</b>	<b>1,715</b>

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.14 CHANGES IN INVENTORIES OF FINISHED GOODS, WORK-IN-PROGRESS AND STOCK-IN-TRADE

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018		FOR THE YEAR ENDED 31 MARCH 2017	
	<i>Opening</i>			
Work-in-progress	6,626		7,064	
Finished goods	8,364		7,066	
Stock-in-trade	4,011	19,001	3,638	17,768
<i>Closing</i>				
Work-in-progress	7,190		6,626	
Finished goods	6,875		8,364	
Stock-in-trade	5,351	19,416	4,011	19,001
		(415)		(1,233)

### 2.15 EMPLOYEE BENEFITS EXPENSE

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Salaries, wages and bonus	27,210	26,337
Contribution to provident and other funds	2,487	2,245
Staff welfare expenses	1,970	2,088
Share-based payment expenses	482	398
	<b>32,149</b>	<b>31,068</b>

### 2.16 DEPRECIATION AND AMORTISATION EXPENSE

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Depreciation of property, plant and equipment	8,250	7,571
Amortisation of intangible assets	2,522	2,695
	<b>10,772</b>	<b>10,266</b>

### 2.17 FINANCE COSTS

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Interest on long-term borrowings	255	149
Interest on other borrowings	533	485
	<b>788</b>	<b>634</b>

### 2.18 SELLING AND OTHER EXPENSES

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Consumption of stores, spares and other materials	5,629	5,208
Clinical trials and other R&D expenses	8,352	10,345
Advertisements	1,410	1,154
Commission on sales	219	236
Carriage outward	2,781	2,267
Other selling expenses	8,892	9,277
Legal and professional	4,396	5,683
Power and fuel	3,293	3,301
Repairs and maintenance		
Buildings	458	552
Plant and machinery	688	932
Others	2,338	1,829
Insurance	346	455
Travel and conveyance	1,676	1,883
Rent	629	649
Rates and taxes	635	832
Corporate social responsibility and donations (a)	520	466
Foreign exchange loss, net	-	71
Allowance for credit loss, net (Refer note 2.34 (b))	169	158
Allowance for doubtful advances, net	16	11
Non Executive Directors' remuneration	61	74
Auditors' remuneration (Refer note 2.20)	16	16
Other general expenses	4,230	3,807
	<b>46,754</b>	<b>49,206</b>

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.18 SELLING AND OTHER EXPENSES (CONTINUED)

a) Details of corporate social responsibility expenditure in accordance with section 135 of the Companies Act, 2013:

PARTICULARS	IN CASH	YET TO BE PAID IN CASH	TOTAL
Gross amount required to be spent by the group during the year			334
Amount spent during the year ending on 31 March 2018	334	-*	334
Amount spent during the year ending on 31 March 2017	431	-*	431

\* Rounded off to millions.

### 2.19 RESEARCH AND DEVELOPMENT EXPENSES

Details of research and development expenses (excluding depreciation and amortisation expense) incurred during the year and included under various heads of expenditures are given below:

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Employee benefits expense (included in note 2.15)	4,926	4,921
Other expenses (included in note 2.18)		
Materials and consumables	4,114	3,392
Clinical trials and other R&D expenses	8,352	10,345
	<b>17,392</b>	<b>18,658</b>

### 2.20 AUDITORS' REMUNERATION

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
a) Audit fees	13	13
b) Other charges		
Taxation matters	-	1
Other matters	1	1
c) Reimbursement of out of pocket expenses	2	1
	<b>16</b>	<b>16</b>

### 2.21 EARNINGS PER SHARE (EPS)

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
<b>Earnings</b>		
Profit attributable to equity holders of the parent	9,468	12,921
<b>Shares</b>		
Number of shares at the beginning of the year	165,741,713	170,607,653
Add: Equity shares issued on exercise of vested stock options	169,194	211,564
Less: Buy back of equity shares	-	(5,077,504)
Total number of equity shares outstanding at the end of the year	165,910,907	165,741,713
Weighted average number of equity shares outstanding during the year - Basic	165,845,408	166,648,943
Add: Weighted average number of equity shares arising out of outstanding stock options that have dilutive effect on the EPS	340,144	348,732
Weighted average number of equity shares outstanding during the year - Diluted	166,185,522	166,997,675
Earnings per share of par value ₹ 5/- - Basic (₹)	57.08	77.53
Earnings per share of par value ₹ 5/- - Diluted (₹)	56.96	77.37

### 2.22 RELATED PARTIES

a) In accordance with the provisions of Ind AS 24, *Related Party Disclosures* and the Companies Act, 2013, Company's Directors, members of the Company's Management Council and Company Secretary are considered as Key Management Personnel.

List of Key Management Personnel of the Company is as below:

1	K Satish Reddy	Whole-time director
2	G V Prasad	Whole-time director
3	Anupam Puri	Independent director
4	Bharat Narotam Doshi	Independent director
5	Dr. Bruce LA Carter	Independent director
6	Dr. Omkar Goswami	Independent director
7	Hans Peter Hasler	Independent director
8	Kalpana Morparia	Independent director
9	Sridar Iyengar	Independent director
10	Prasad R Menon (from 30 October 2017)	Independent director

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2.22 RELATED PARTIES (CONTINUED)

11	Dr. Ashok Ganguly (till 28 July 2017)	Independent director
12	Ravi Bhoothalingam (till 27 July 2016)	Independent director
13	Alok Sonig	Management council
14	Dr. Amit Biswas <sup>(1)</sup>	Management council
15	Dr. Cartikeya Reddy <sup>(2)</sup>	Management council
16	Dr. K V S Ram Rao	Management council
17	M V Ramana	Management council
18	Saumen Chakraborty	Management council
19	Ganadhis Kamat (from 18 April 2016)	Management council
20	Anil Namboodiripad (from 1 July 2016)	Management council
21	Archana Bhaskar (from 15 June 2017)	Management council
22	Sanjay Sharma (from 1 August 2017)	Management council
23	Samiran Das (till 31 January 2018)	Management council
24	Abhijit Mukherjee (till 31 March 2018)	Management council
25	Dr. Chandrasekhar Sripada (till 31 July 2017)	Management council
26	Dr. Raghav Chari (till 31 October 2016)	Management council
27	J Ramachandran (from 15 September 2016 till 31 October 2017)	Management council
28	Sauri Gudlavalleti (from 1 April 2018) <sup>(1)</sup>	Management council
29	P Yugandhar (from 1 April 2018)	Management council
30	Erez Israeli (from 2 April 2018) <sup>(3)</sup>	Management council
31	Sandeep Poddar	Company secretary

<sup>(1)</sup> Sauri Gudlavalleti, has joined the management council effective as of 1 April 2018. Dr. Amit Biswas, will retire in June 2018 and will mentor the team in this transition.

<sup>(2)</sup> Raymond de Vre, will join the management council, effective from 1 June 2018. Dr. Cartikeya Reddy has decided to move from the Company and will work through an extended transition phase until 30 September 2018.

<sup>(3)</sup> On 2 April 2018, Erez Israeli joined the Company as Chief Operating Officer and Global Head of Generics and PSAI businesses.

### b) List of related parties with whom transactions have taken place during the current and/or previous year:

1	Dr. Reddy's Institute of Life Sciences	Enterprise over which whole-time directors have significant influence
2	Stamlo Hotels Limited	Enterprise controlled by whole-time directors
3	Green Park Hotels and Resorts Limited	Enterprise controlled by relative of a whole-time director
4	K Samrajyam	Mother of Chairman
5	G Anuradha	Spouse of Chief Executive Officer
6	K Deepti Reddy	Spouse of Chairman
7	G Mallika Reddy	Daughter of Chief Executive Officer
8	G V Sanjana Reddy	Daughter of Chief Executive Officer
9	Akhil Ravi (from 5 March 2018)	Son-in-law of Chief Executive Officer
10	Dr. Reddy's Foundation	Enterprise over which whole-time directors and their relatives have significant influence
11	Pudami Educational Society	Enterprise over which whole-time directors and their relatives have significant influence
12	Green Park Hospitality Services Private Limited	Enterprise controlled by relative of a whole-time director
13	Kunshan Rotam Reddy Pharmaceuticals Company Limited	Enterprise over which the Company exercises joint control with other joint venture partners and holds 51.33% of equity shares

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

### c) The following is a summary of significant related party transactions:

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
(i) Research and development services received		
Dr.Reddy's Institute of Life Sciences	98	114
(ii) Research and development services provided		
Kunshan Rotam Reddy Pharmaceuticals Company Limited	100	-
(iii) Contributions towards social development		
Dr.Reddy's Foundation	203	277
Pudami Educational Society	35	41
<b>Total</b>	<b>238</b>	<b>318</b>



(All amounts in Indian Rupees millions, except share data and where otherwise stated)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.22 RELATED PARTIES (CONTINUED)

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
(iv) Canteen services expenses		
Green Park Hospitality Services Private Limited	178	-
(v) Hotel expenses paid/payable to		
Green Park Hotel and Resorts Limited	41	39
Stamlo Hotels Private Limited	8	5
<b>Total</b>	<b>49</b>	<b>44</b>
(vi) Rent paid/payable to		
<i>Key Management Personnel</i>		
K Satish Reddy	13	13
<i>Relatives of Key Management Personnel</i>		
G Anuradha	12	12
K Deepti Reddy	3	3
K Samrajyam	2	2
G Mallika Reddy	2	2
G V Sanjana Reddy	2	2
<b>Total</b>	<b>34</b>	<b>34</b>
(vii) Salaries to relatives of Key Management Personnel	1	-
(viii) Remuneration to Key Management Personnel		
Salaries and other benefits <sup>(1)</sup>	466	388
Contributions to defined contribution plans	38	28
Commission to directors	153	212
Share-based payments expense	116	76
<b>Total</b>	<b>773</b>	<b>704</b>

(1) In addition to the above, the Company has accrued ₹ Nil and ₹ 79 towards a long-term incentive plan for the services rendered by Key Management Personnel during the years ended 31 March 2018 and 31 March 2017, respectively.

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

d) The Company has the following amounts due from/to related parties:

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
(i) Due from related parties		
Key Management Personnel (towards rent deposits)	8	8
Green Park Hospitality Services Private Limited	40	40
Kunshan Rotam Reddy Pharmaceuticals Company Limited	108	-
<b>Total</b>	<b>156</b>	<b>48</b>
(ii) Due to related parties		
Dr. Reddy's Institute of Life Sciences	10	9
Green Park Hospitality Services Private Limited	3	-
Green Park Hotel and Resorts Limited	1	.*
Stamlo Hotels Private Limited	.*	-
<b>Total</b>	<b>14</b>	<b>9</b>

\*Rounded off to millions.

### 2.23 INVESTMENT IN JOINT VENTURES

Kunshan Rotam Reddy Pharmaceuticals Company Limited ("Reddy Kunshan") is engaged in manufacturing and marketing of formulations in China. The Company's interest in Reddy Kunshan was 51.3% as of 31 March 2018 and 31 March 2017. Three directors of the Company are on the board of directors of Reddy Kunshan, which consists of eight directors. Under the terms of the joint venture agreement, all major decisions with respect to operating activities, significant financing and other activities are taken by the approval of at least five of the eight directors of Reddy Kunshan's board. As the Company does not control Reddy Kunshan's board and the other partners have significant participating rights, the Company's interest in Reddy Kunshan has been accounted for under the equity method of accounting under Ind AS 111.

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.23 INVESTMENT IN JOINT VENTURES (CONTINUED)

Summary financial information of Reddy Kunshan, as translated into the reporting currency of the Company and not adjusted for the percentage ownership held by the Company, is as follows:

PARTICULARS	AS AT/FOR THE YEAR ENDED 31 MARCH	
	2018	2017
	51.3%	51.3%
Total current assets	4,933	3,385
Total non-current assets	347	296
<b>Total assets</b>	<b>5,280</b>	<b>3,681</b>
Equity	3,600	2,603
Total current liabilities	1,680	1,078
<b>Total equity and liabilities</b>	<b>5,280</b>	<b>3,681</b>
Revenues	5,482	4,980
Expenses	4,792	4,295
<b>Profit for the year</b>	<b>690</b>	<b>685</b>
Company's share of profits for the year	354	351
Carrying value of the Company's investment	2,029	1,519
Translation adjustment arising out of translation of foreign currency balances	255	97

### 2.24 SEGMENT REPORTING

The Chief Operating Decision Maker ("CODM") evaluates the Company's performance and allocates resources based on an analysis of various performance indicators by operating segments. The CODM reviews revenue and gross profit as the performance indicator for all of the operating segments, and does not review the total assets and liabilities of an operating segment. The Chief Executive Officer is the CODM of the Company.

The Company's reportable operating segments are as follows:

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

**Global Generics:** This segment consists of the Company's business of manufacturing and marketing prescription and over-the-counter finished pharmaceutical products ready for consumption by the patient, marketed either under a brand name (branded formulations) or as generic finished dosages with therapeutic equivalence to branded formulations (generics). This segment includes the operations of the Company's biologics business.

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

**Proprietary Products:** This segment consists of the Company's business that focuses on the research, development, and manufacture of differentiated formulations and new chemical entities ("NCEs"). These novel products fall within the dermatology and neurology therapeutic areas and are marketed and sold through Promius® Pharma, LLC.

**Others:** This includes the operations of the Company's wholly-owned subsidiary, Aurigene Discovery Technologies Limited, a discovery stage biotechnology company developing novel and best-in-class therapies in the fields of oncology and inflammation and which works with established pharmaceutical and biotechnology companies in early-stage collaborations, bringing drug candidates from hit generation to pre-clinical development.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2.24 SEGMENT REPORTING (CONTINUED)

Segment information:

REPORTABLE SEGMENTS	FOR THE YEAR ENDED 31 MARCH 2018				
	GLOBAL GENERICS	PSAI	PROPRIETARY PRODUCTS	OTHERS	TOTAL
Revenue from operations <sup>(1)(2)</sup>	114,282	22,438	4,250	1,840	142,810
Gross profit	67,190	4,477	3,799	869	76,335
Less: Selling and other unallocable expense/(income), net					62,831
Profit before tax					13,504
Tax expense					4,380
Profit after tax					9,124
Add: Share of profit of equity accounted investees, net of tax					344
Profit for the year					9,468

REPORTABLE SEGMENTS	FOR THE YEAR ENDED 31 MARCH 2017				
	GLOBAL GENERICS	PSAI	PROPRIETARY PRODUCTS	OTHERS	TOTAL
Revenue from operations <sup>(1)(2)</sup>	115,736	21,651	2,783	1,791	141,961
Gross profit	71,079	4,497	1,951	853	78,380
Less: Selling and other unallocable expense/(income), net					62,843
Profit before tax					15,537
Tax expense					2,965
Profit after tax					12,572
Add: Share of profit of equity accounted investees, net of tax					349
Profit for the year					12,921

(1) Revenue for the year ended 31 March 2018 does not include inter-segment revenues from PSAI segment to Global Generics segment which amounts to ₹ 5,492 (as compared to ₹ 6,181 for the year ended 31 March 2017).

(2) Post implementation of Goods and Services Tax ("GST") with effect from 1 July 2017, sales is disclosed net of GST. Sales for the year ended 31 March 2017 included excise duty of ₹ 939 which is now subsumed in the GST. Sales for the year ended 31 March 2018 includes excise duty of ₹ 173 up to 30 June 2017. Accordingly, sales for the year ended 31 March 2018 are not comparable with those of the previous year presented.

Analysis of revenue by geography:

The following table shows the distribution of the Company's revenues (excluding other operating income) based on the location of the customers:

COUNTRY	FOR THE YEAR ENDED	FOR THE YEAR ENDED
	31 MARCH 2018	31 MARCH 2017
India	25,209	24,927
United States	68,124	69,816
Russia	12,610	11,547
Others	36,085	34,519
Total	142,028	140,809

Analysis of revenue within the Global Generics segment:

An analysis of revenues (excluding other operating income) by therapeutic areas in the Company's Global Generics segment is given below:

PARTICULARS	FOR THE YEAR ENDED	FOR THE YEAR ENDED
	31 MARCH 2018	31 MARCH 2017
Gastrointestinal	19,153	21,190
Oncology	16,999	17,054
Cardiovascular	16,501	15,553
Pain Management	12,898	14,323
Central Nervous System	12,509	12,749
Anti-Infective	6,557	7,189
Others	29,397	27,351
Total	114,014	115,409

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.24 SEGMENT REPORTING (CONTINUED)

Analysis of revenue within the PSAI segment:

An analysis of revenues (excluding other operating income) by therapeutic areas in the Company's PSAI segment is given below:

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Cardiovascular	6,191	5,078
Pain Management	3,228	3,290
Central Nervous System	2,331	2,758
Anti-Infective	1,968	1,859
Dermatology	1,606	1,606
Oncology	1,650	1,534
Others	5,018	5,152
<b>Total</b>	<b>21,992</b>	<b>21,277</b>

Analysis of assets by geography:

The following table shows the distribution of the Company's non-current assets (other than financial instruments and deferred tax assets) by country, based on the location of assets:

COUNTRY	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
India	61,997	61,031
Switzerland	32,202	31,457
United States	8,483	8,233
Germany	2,968	2,560
Others	5,930	5,001
<b>Total</b>	<b>111,580</b>	<b>108,282</b>

The following table shows the distribution of the Company's property, plant and equipment including capital work in progress and intangible assets acquired during the year (other than goodwill arising on business combination) by country, based on the location of assets:

COUNTRY	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
India	8,093	10,545
Switzerland	1,100	26,639
United States	779	2,657
Others	1,830	728
<b>Total</b>	<b>11,802</b>	<b>40,569</b>

Analysis of depreciation and amortisation, for arriving gross profit by reportable segments:

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Global Generics	3,549	3,334
PSAI	2,887	2,647
Proprietary Products	-	-
Others	94	89
<b>Total</b>	<b>6,530</b>	<b>6,070</b>

Information about major customers

Revenues from two of the customers of the Company's Global Generics segment were ₹ 13,486 and ₹ 10,755 representing approximately 9 % and 8% of the Company's total revenues, respectively for the year ended 31 March 2018.

Revenues from one of the customers of the Company's Global Generics segment were ₹ 22,760 representing approximately 16 % of the Company's total revenues, for the year ended 31 March 2017.

### 2.25 DETAILS OF CASH TRANSACTIONS

Details of cash transaction during the period 8 November 2016 to 30 December 2016 is as follows:

PARTICULARS	All amounts in absolute ₹		
	SPECIFIED BANK NOTES*	OTHERS	TOTAL
Closing cash in hand as on 8 November 2016	763,500	479,484	1,242,984
Permitted receipts	-	580,439	580,439
Permitted payments	(79,500)	(440,222)	(519,722)
Amount deposited in bank	(684,000)	(28,000)	(712,000)
Closing cash in hand as on 30 December 2016	-	<b>591,701</b>	<b>591,701</b>

\* Specified bank notes includes currency notes of denomination ₹ 1,000 and ₹ 500.

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2.26 DESCRIPTION OF THE GROUP

A. Subsidiaries, step-down subsidiaries, joint ventures and other consolidating entities of the parent company are listed below:

ENTITY	COUNTRY OF INCORPORATION	% OF HOLDING
<b>Subsidiaries</b>		
Aurigene Discovery Technologies Limited	A company organised under the laws of India	100
Chemnor Investments Limited	A company organised under the laws of India	100
Dr. Reddy's Bio-Sciences Limited	A company organised under the laws of India	100
Dr. Reddy's Farmaceutica Do Brasil Ltda.	A company organised under the laws of Brazil	100
Dr. Reddy's Laboratories SA	A company organised under the laws of Switzerland	100
Idea2Enterprises (India) Private Limited	A company organised under the laws of India	100
Imperial Credit Private Limited	A company organised under the laws of India	100
IndustriasQuimicasFalcondeMexico,S.A.deC.V.	A company organised under the laws of Mexico	100
Reddy Antilles N.V.	A company organised under the laws of the Netherlands	100
Regkinetics Services Limited (formerly Dr. Reddy's Pharma SEZ Limited )	A company organised under the laws of India	100
<b>Step-down subsidiaries</b>		
Aurigene Discovery Technologies (Malaysia) SDN BHD	A subsidiary of Aurigene Discovery Technologies Limited organised under the laws of Malaysia	100
Aurigene Discovery Technologies Inc.	A subsidiary of Aurigene Discovery Technologies Limited organised under the laws of the USA	100
beta Institut gemeinnützige GmbH	A subsidiary of Reddy Holding GmbH organised under the laws of Germany	100
betapharm Arzneimittel GmbH	A subsidiary of Reddy Holding GmbH organised under the laws of Germany	100
Chirotech Technology Limited	A subsidiary of Dr. Reddy's Laboratories (EU) Limited organised under the laws of the United Kingdom	100
DRL Impex Limited	A subsidiary of Idea2Enterprises (India) Private Limited organised under the laws of India	100
Dr. Reddy's Laboratories (Australia) Pty. Limited	A subsidiary of Dr. Reddy's Laboratories SA organised under the laws of Australia	100
Dr. Reddy's Laboratories Canada, Inc.	A subsidiary of Dr. Reddy's Laboratories SA organised under the laws of Canada	100
Dr. Reddy's Laboratories Chile SPA. (from 16 June 2017)	A subsidiary of Dr. Reddy's Laboratories SA organised under the laws of Chile	100
Dr. Reddy's Laboratories (EU) Limited	A subsidiary of Dr. Reddy's Laboratories SA organised under the laws of the United Kingdom	100
Dr. Reddy's Laboratories Inc.	A subsidiary of Dr. Reddy's Laboratories SA organised under the laws of the USA	100
Dr. Reddy's Laboratories International SA	A subsidiary of Dr. Reddy's Laboratories SA organised under the laws of Switzerland	100
Dr. Reddy's Laboratories Japan KK	A subsidiary of Dr. Reddy's Laboratories SA organised under the laws of Japan	100
Dr. Reddy's Laboratories Kazakhstan LLP	A subsidiary of Dr. Reddy's Laboratories SA organised under the laws of Kazakhstan	100
Dr. Reddy's Laboratories LLC	A subsidiary of Dr. Reddy's Laboratories SA organised under the laws of Ukraine	100
Dr. Reddy's Laboratories Louisiana LLC	A subsidiary of Dr. Reddy's Laboratories Inc. organised under the laws of the USA	100
Dr. Reddy's Laboratories Malaysia Sdn. Bhd. (from 10 July 2017)	A subsidiary of Dr. Reddy's Laboratories SA organised under the laws of Malaysia	100
Dr. Reddy's Laboratories New York, Inc.	A subsidiary of Dr. Reddy's Laboratories SA organised under the laws of the USA	100
Dr. Reddy's Laboratories (Proprietary) Limited	A subsidiary of Dr. Reddy's Laboratories SA organised under the laws of the Republic of South Africa	100
Dr. Reddy's Laboratories Romania S.R.L.	A subsidiary of Dr. Reddy's Laboratories SA organised under the laws of Romania	100
Dr. Reddy's Laboratories SAS	A subsidiary of Dr. Reddy's Laboratories SA organised under the laws of Colombia	100
Dr. Reddy's Laboratories Taiwan Limited (from 23 February 2018)	A subsidiary of Dr. Reddy's Laboratories SA organised under the laws of Taiwan	100
Dr. Reddy's Laboratories Tennessee, LLC	A subsidiary of Dr. Reddy's Laboratories Inc. organised under the laws of the USA	100
Dr. Reddy's Laboratories (UK) Limited	A subsidiary of Dr. Reddy's Laboratories (EU) Limited organised under the laws of the United Kingdom	100
Dr. Reddy's Research and Development B.V. (formerly Octopus B.V.)	A subsidiary of Reddy Netherlands B.V. organised under the laws of the Netherlands	100
Dr. Reddy's Singapore PTE Limited	A subsidiary of Dr. Reddy's Laboratories SA organised under the laws of Singapore	100
Dr. Reddy's Srl	A subsidiary of Reddy Pharma Italia S.R.L organised under the laws of Italy	100
Dr. Reddy's New Zealand Limited	A subsidiary of Dr. Reddy's Laboratories SA organised under the laws of New Zealand	100
Dr. Reddy's (WUXI) Pharmaceutical Co. Limited (from 2 June 2017)	A subsidiary of Dr. Reddy's Laboratories SA organised under the laws of China	100
Dr. Reddy's Venezuela, C.A.	A subsidiary of Dr. Reddy's Laboratories SA organised under the laws of Venezuela	100
Eurobridge Consulting B.V.	A subsidiary of Dr. Reddy's Research and Development B.V. organised under the laws of the Netherlands (formerly a subsidiary of Reddy Antilles N.V. till 28 March 2018)	100
Lacock Holdings Limited	A subsidiary of Dr. Reddy's Laboratories SA organised under the laws of Cyprus	100
OOO Dr. Reddy's Laboratories Limited	A subsidiary of Dr. Reddy's Laboratories SA organised under the laws of Russia	100
OOO DRS LLC	A subsidiary of Eurobridge Consulting B.V. organised under the laws of Russia	100
Promius Pharma LLC	A subsidiary of Dr. Reddy's Laboratories Inc. organised under the laws of the USA	100
Reddy Holding GmbH	A subsidiary of Dr. Reddy's Laboratories SA organised under the laws of Germany	100
Reddy Netherlands B.V.	A subsidiary of Dr. Reddy's Laboratories SA organised under the laws of the Netherlands	100
Reddy Pharma Iberia SA	A subsidiary of Dr. Reddy's Laboratories SA organised under the laws of Spain (formerly a subsidiary of Dr. Reddy's Laboratories Limited till October 2017)	100
Reddy Pharma Italia S.R.L	A subsidiary of Lacock Holdings Limited organised under the laws of Italy	100
Reddy Pharma SAS	A subsidiary of Dr. Reddy's Laboratories SA organised under the laws of France	100

Dr. Reddy's Laboratories Limited

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2.26 DESCRIPTION OF THE GROUP (CONTINUED)

ENTITY	COUNTRY OF INCORPORATION	% OF HOLDING
<b>Joint ventures</b>		
DRANU LLC	A joint venture of Dr. Reddy's Laboratories Inc. organised under the laws of the USA	50
DRES Energy Private Limited	A joint venture of Dr. Reddy's Laboratories Limited organised under the laws of India	26
DRSS Solar Power Private Limited#	A joint venture of Dr. Reddy's Laboratories Limited organised under the laws of India	26
Kunshan Rotam Reddy Pharmaceutical Company Limited	A joint venture of Dr. Reddy's Laboratories Limited organised under the laws of China	51.33
<b>Other consolidating entities</b>		
Chemisor Employees Welfare Trust	A trust incorporated under the laws of India	*
Dr. Reddy's Research Foundation	A company incorporated under the laws of India	*

# Liquidated w.e.f. 1 November 2017.

\* Ownership interest is not by way of equity interest.

### B. Additional information pursuant to para 2 of general instructions for the preparation of consolidated financial statements:

SL. NO.	NAME OF THE ENTITY	AS AT 31 MARCH 2018		FOR THE YEAR ENDED 31 MARCH 2018					
		NET ASSETS, I.E., TOTAL ASSETS MINUS TOTAL LIABILITIES		SHARE IN PROFIT OR LOSS		SHARE IN OCI		SHARE IN TOTAL COMPREHENSIVE INCOME (TCI)	
		AS % OF CONSOLIDATED NET ASSETS	AMOUNT	AS % OF CONSOLIDATED PROFIT OR LOSS	AMOUNT	AS % OF CONSOLIDATED OCI	AMOUNT	AS % OF CONSOLIDATED TCI	AMOUNT
<b>Parent</b>									
	Dr. Reddy's Laboratories Limited	93.92	118,078	59.88	5,669	2.12	(60)	84.57	5,609
<b>Subsidiaries</b>									
<i>India</i>									
1	Aurigen Discovery Technologies Limited	0.59	737	3.99	378	101.06	(2,866)	(37.52)	(2,488)
2	Chemisor Investments Limited	-	1	-	-	-	-	-	-
3	Dr. Reddy's Bio-Sciences Limited	0.24	297	(0.40)	(38)	-	-	(0.57)	(38)
4	DRL Impex Limited	-	(2)	-	-	-	-	-	-
5	Idea2Enterprises (India) Private Limited	1.22	1,536	-	-	-	-	-	-
6	Imperial Credit Private Limited	0.02	22	0.01	1	-	-	0.02	1
7	Regkinetics Services Limited (formerly Dr. Reddy's Pharma SEZ Limited)	0.16	198	(0.02)	(2)	-	-	(0.03)	(2)
<i>Foreign</i>									
1	Aurigen Discovery Technologies (Malaysia) SDN BHD	0.02	28	0.06	6	-	-	0.09	6
2	Aurigen Discovery Technologies Inc.	-	1	-	-	-	-	-	-
3	beta Institut gemeinnützige GmbH	0.01	7	-	-	(0.04)	1	0.02	1
4	betapharm Arzneimittel GmbH	0.05	61	0.10	9	(0.28)	8	0.26	17
5	Chirotech Technology Limited	0.89	1,119	1.49	141	(4.34)	123	3.98	264
6	Dr. Reddy's Farmaceutica Do Brasil Ltda.	(0.50)	(628)	(2.47)	(234)	-	-	(3.53)	(234)
7	Dr. Reddy's Laboratories (Australia) Pty. Limited	(0.27)	(342)	1.33	126	-	-	1.90	126
8	Dr. Reddy's Laboratories (Canada) Inc.	0.09	107	0.01	1	-	-	0.02	1
9	Dr. Reddy's Laboratories Chile SPA. (from 16 June 2017)	-	(3)	(0.37)	(35)	-	-	(0.53)	(35)
10	Dr. Reddy's Laboratories (EU) Limited	3.46	4,347	9.65	914	(10.92)	310	18.46	1,224
11	Dr. Reddy's Laboratories Inc.	15.94	20,044	11.65	1,103	-	-	16.63	1,103
12	Dr. Reddy's Laboratories International SA	0.22	277	0.02	2	-	-	0.03	2
13	Dr. Reddy's Laboratories Japan KK	-	2	(0.13)	(12)	-	-	(0.18)	(12)
14	Dr. Reddy's Laboratories Kazakhstan LLP	0.15	188	1.16	110	-	-	1.66	110
15	Dr. Reddy's Laboratories LLC	0.02	23	(0.30)	(28)	-	-	(0.42)	(28)
16	Dr. Reddy's Laboratories Louisiana LLC	0.23	291	(15.90)	(1,505)	0.25	(7)	(22.80)	(1,512)
17	Dr. Reddy's Laboratories Malaysia Sdn. Bhd. (from 10 July 2017)	0.01	18	(0.15)	(14)	-	-	(0.21)	(14)
18	Dr. Reddy's Laboratories New York, Inc.	(0.85)	(1,070)	(5.22)	(494)	0.28	(8)	(7.57)	(502)
19	Dr. Reddy's Laboratories (Proprietary) Limited	0.16	196	0.45	43	-	-	0.65	43
20	Dr. Reddy's Laboratories Romania S.R.L.	0.19	236	0.73	69	-	-	1.04	69

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2.26 DESCRIPTION OF THE GROUP (CONTINUED)

SL. NO.	NAME OF THE ENTITY	AS AT 31 MARCH 2018		FOR THE YEAR ENDED 31 MARCH 2018					
		NET ASSETS, I.E., TOTAL ASSETS MINUS TOTAL LIABILITIES		SHARE IN PROFIT OR LOSS		SHARE IN OCI		SHARE IN TOTAL COMPREHENSIVE INCOME (TCI)	
		AS % OF CONSOLIDATED NET ASSETS	AMOUNT	AS % OF CONSOLIDATED PROFIT OR LOSS	AMOUNT	AS % OF CONSOLIDATED OCI	AMOUNT	AS % OF CONSOLIDATED TCI	AMOUNT
21	Dr. Reddy's Laboratories SA	31.15	39,160	14.67	1,389	(4.58)	130	22.90	1,519
22	Dr. Reddy's Laboratories SAS	0.03	44	0.50	47	-	-	0.71	47
23	Dr. Reddy's Laboratories Taiwan Ltd. (from 23 February 2018)	0.01	13	(0.01)	(1)	-	-	(0.02)	(1)
24	Dr. Reddy's Laboratories Tennessee, LLC	(1.80)	(2,267)	(4.33)	(410)	0.49	(14)	(6.39)	(424)
25	Dr. Reddy's Laboratories (UK) Limited	1.94	2,441	8.32	788	-	-	11.88	788
26	Dr. Reddy's Research and Development B.V. (formerly Octoplus B.V.)	(0.47)	(595)	(1.30)	(123)	3.03	(86)	(3.15)	(209)
27	Dr. Reddy's Singapore PTE Limited	0.03	41	-	-	-	-	-	-
28	Dr. Reddy's Srl	(0.67)	(845)	0.21	20	4.65	(132)	(1.69)	(112)
29	Dr. Reddy's New Zealand Limited	0.05	60	0.08	8	-	-	0.12	8
30	Dr. Reddy's (WUXI) Pharmaceutical Co. Ltd. (from 2 June 2017)	0.01	7	(0.61)	(58)	-	-	(0.87)	(58)
31	Dr. Reddy's Venezuela, C.A.	(3.29)	(4,140)	(1.17)	(111)	-	-	(1.67)	(111)
32	Eurobridge Consulting B.V.	0.39	491	(0.03)	(3)	-	-	(0.05)	(3)
33	Industrias Quimicas Falcon de Mexico, S.A. de CV	0.55	689	2.62	248	(1.27)	36	4.28	284
34	Lacock Holdings Limited	0.10	130	(0.02)	(2)	(0.18)	5	0.05	3
35	OOO Dr. Reddy's Laboratories Limited	1.58	1,982	1.73	164	-	-	2.47	164
36	OOO DRS LLC	0.09	115	(0.04)	(4)	-	-	(0.06)	(4)
37	Promius Pharma LLC	(9.23)	(11,601)	(7.78)	(737)	2.40	(68)	(12.14)	(805)
38	Reddy Antilles N.V.	(0.21)	(264)	(1.37)	(130)	-	-	(1.96)	(130)
39	Reddy Holding GmbH	15.92	20,011	7.73	732	32.69	(927)	(2.94)	(195)
40	Reddy Netherlands B.V.	2.27	2,857	1.45	137	-	-	2.07	137
41	Reddy Pharma Iberia SA	(0.02)	(24)	(0.70)	(66)	(0.07)	2	(0.97)	(64)
42	Reddy Pharma Italia S.R.L.	0.02	23	(0.01)	(1)	1.55	(44)	(0.68)	(45)
43	Reddy Pharma SAS	0.01	14	(0.99)	(94)	-	-	(1.42)	(94)
	<b>Joint ventures</b>								
	<b>India</b>								
1	DRES Energy Private Limited	-	-	(0.01)	(1)	-	-	(0.02)	(1)
2	DRSS Solar Power Private Limited#	-	-	-	-	-	-	-	-
	<b>Foreign</b>								
1	DRANU LLC	-	-	-	-	-	-	-	-
2	Kunshan Rotam Reddy Pharmaceutical Company Limited	-	-	3.63	344	(5.54)	157	7.55	501
	<b>Other consolidating entities*</b>								
	<b>India</b>								
1	Cheminor Employees Welfare Trust	0.21	268	0.17	16	-	-	0.24	16
2	Dr. Reddy's Research Foundation	-	4	(0.01)	(1)	-	-	(0.02)	(1)
	<b>Sub total</b>	<b>154.64</b>	<b>194,383</b>	<b>88.30</b>	<b>8,361</b>	<b>121.30</b>	<b>(3,440)</b>	<b>74.19</b>	<b>4,921</b>
	Less: Effect of intercompany adjustments/eliminations	(54.64)	(68,667)	11.70	1,107	(21.30)	604	25.80	1,711
	<b>Total</b>	<b>100.00</b>	<b>125,716</b>	<b>100.00</b>	<b>9,468</b>	<b>100.00</b>	<b>(2,836)</b>	<b>100.00</b>	<b>6,632</b>

# Liquidated w.e.f. 1 November 2017.

\* Ownership interest is not by way of equity interest.

Note: Net assets and share in profit or loss for the Parent Company, subsidiaries, joint ventures and other consolidating entities are as per the standalone financial statements of the respective entities.

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2.27 EMPLOYEE STOCK INCENTIVE PLANS

Dr. Reddy's Employees Stock Option Plan -2002 (the "DRL 2002 Plan"):

The Company instituted the DRL 2002 Plan for all eligible employees pursuant to 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"). The Nomination, Governance and Compensation Committee of the Board of DRL (the "Committee") administer the DRL 2002 Plan and grants stock options to eligible employees. The Committee determines which eligible employees will receive 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 grant. The options issued under the DRL 2002 Plan vest in periods ranging between one and four years and generally have a maximum contractual term of five years.

The DRL 2002 Plan, as amended at annual general meetings of shareholders held on 28 July 2004 and on 27 July 2005, provides for stock option grants in two categories:

Category A: 300,000 stock options out of the total of 2,295,478 options reserved for grant 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 options reserved for grant having an exercise price equal to the par value of the underlying equity shares (i.e., ₹ 5 per option).

Under the DRL 2002 Plan, the exercise price of the fair market value options granted under Category A above is determined based on the average closing price for 30 days prior to the grant in the stock exchange where there is highest trading volume during that period. Notwithstanding the foregoing, the 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.

After the stock split effected in the form of stock dividend issued by the Company in August 2006, the DRL 2002 Plan provides for stock option grants in the above two categories as follows:

PARTICULARS	NUMBER OF OPTIONS RESERVED UNDER CATEGORY A	NUMBER OF OPTIONS RESERVED UNDER CATEGORY B	TOTAL
Options reserved under original plan	300,000	1,995,478	2,295,478
Options exercised prior to stock dividend date (A)	94,061	147,793	241,854
Balance of shares that can be allotted on exercise of options (B)	205,939	1,847,685	2,053,624
Options arising from stock dividend (C)	205,939	1,847,685	2,053,624
Options reserved after stock dividend (A+B+C)	<b>505,939</b>	<b>3,843,163</b>	<b>4,349,102</b>

Stock option activity under the DRL 2002 Plan for the two categories of options during the years ended 31 March 2018 and 31 March 2017 is as follows:

**Category A – Fair Market Value Options:** There was no stock options activity under this category during the year 31 March 2018 and 31 March 2017 and there were no options outstanding under this category as of 31 March 2018 and 31 March 2017.

Category B – Par Value Options	FOR THE YEAR ENDED 31 MARCH 2018			
	SHARES ARISING OUT OF OPTIONS	RANGE OF EXERCISE PRICES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING USEFUL LIFE (MONTHS)
Outstanding at the beginning of the period	330,142	5.00	5.00	69
Granted during the period	158,112	5.00	5.00	90
Expired/forfeited during the period	(23,318)	5.00	5.00	-
Exercised during the period	(144,392)	5.00	5.00	-
Outstanding at the end of the period	<b>320,544</b>	<b>5.00</b>	<b>5.00</b>	<b>70</b>
Exercisable at the end of the period	<b>47,383</b>	<b>5.00</b>	<b>5.00</b>	<b>49</b>

Category B – Par Value Options	FOR THE YEAR ENDED 31 MARCH 2017			
	SHARES ARISING OUT OF OPTIONS	RANGE OF EXERCISE PRICES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING USEFUL LIFE (MONTHS)
Outstanding at the beginning of the period	427,348	5.00	5.00	72
Granted during the period	103,136	5.00	5.00	90
Expired/forfeited during the period	(22,597)	5.00	5.00	-
Exercised during the period	(177,745)	5.00	5.00	-
Outstanding at the end of the period	<b>330,142</b>	<b>5.00</b>	<b>5.00</b>	<b>69</b>
Exercisable at the end of the period	<b>40,882</b>	<b>5.00</b>	<b>5.00</b>	<b>38</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.27 EMPLOYEE STOCK INCENTIVE PLANS (CONTINUED)

The weighted average grant date fair value of par value options granted under category B above of the DRL 2002 Plan during the years ended 31 March 2018 and 31 March 2017 was ₹ 2,546 and ₹ 3,266 per option, respectively. The weighted average share price on the date of exercise of options during the years ended 31 March 2018 and 31 March 2017 was ₹ 2,375 and ₹ 3,292 per share, respectively.

The aggregate intrinsic value of options exercised under the DRL 2002 Plan during the years ended 31 March 2018 and 31 March 2017 was ₹ 342 and ₹ 584, respectively. As of 31 March 2018, options outstanding under the DRL 2002 Plan had an aggregate intrinsic value of ₹ 665 and options exercisable under the DRL 2002 Plan had an aggregate intrinsic value of ₹ 98.

The term of the DRL 2002 plan was extended for a period of 10 years effective as of 29 January 2012 by the shareholders at the Company's Annual General Meeting held on 20 July 2012.

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 became effective upon its approval by the Board of Directors on 22 January 2007. The DRL 2007 Plan covers all employees and directors (excluding promoter directors) of DRL and its subsidiaries (collectively, "eligible employees"). The Committee administers the DRL 2007 Plan and grants stock options to eligible employees. The Committee determines which eligible employees will receive 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 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 DRL 2007 Plan provides for option grants in two categories:

Category A: 382,695 stock options out of the total of 1,530,779 stock options reserved for grant having an exercise price equal to the fair market value of the underlying equity shares on the date of grant; and

Category B: 1,148,084 stock options out of the total of 1,530,779 stock options reserved for grant having an exercise price equal to the par value of the underlying equity shares (i.e., ₹ 5 per option).

Stock option activity under the DRL 2007 Plan for the two categories of options during the years ended 31 March 2018 and 2017 is as follows:

**Category A – Fair Market Value Options:** There were no options granted under this category as of 31 March 2018 and 31 March 2017.

Category B – Par Value Options	FOR THE YEAR ENDED 31 MARCH 2018			
	SHARES ARISING OUT OF OPTIONS	RANGE OF EXERCISE PRICES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING USEFUL LIFE (MONTHS)
Outstanding at the beginning of the period	88,141	5.00	5.00	74
Granted during the period	63,304	5.00	5.00	90
Expired/forfeited during the period	(19,335)	5.00	5.00	-
Exercised during the period	(24,802)	5.00	5.00	-
<b>Outstanding at the end of the period</b>	<b>107,308</b>	<b>5.00</b>	<b>5.00</b>	<b>73</b>
<b>Exercisable at the end of the period</b>	<b>11,034</b>	<b>5.00</b>	<b>5.00</b>	<b>47</b>

Category B – Par Value Options	FOR THE YEAR ENDED 31 MARCH 2017			
	SHARES ARISING OUT OF OPTIONS	RANGE OF EXERCISE PRICES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING USEFUL LIFE (MONTHS)
Outstanding at the beginning of the period	92,043	5.00	5.00	79
Granted during the period	52,956	5.00	5.00	90
Expired/forfeited during the period	(23,039)	5.00	5.00	-
Exercised during the period	(33,819)	5.00	5.00	-
<b>Outstanding at the end of the period</b>	<b>88,141</b>	<b>5.00</b>	<b>5.00</b>	<b>74</b>
<b>Exercisable at the end of the period</b>	<b>6,517</b>	<b>5.00</b>	<b>5.00</b>	<b>43</b>

The weighted average grant date fair value of par value options granted under category B of the DRL 2007 Plan during the years ended 31 March 2018 and 31 March 2017 was ₹ 2,540 and ₹ 3,266, respectively. The weighted average share price on the date of exercise of options during the years ended 31 March 2018 and 31 March 2017 was ₹ 2,295 and ₹ 3,268, respectively.

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.27 EMPLOYEE STOCK INCENTIVE PLANS (CONTINUED)

The aggregate intrinsic value of options exercised under the DRL 2007 Plan during the years ended 31 March 2018 and 31 March 2017 was ₹ 57 and ₹ 110, respectively. As of 31 March 2018, options outstanding under the DRL 2007 Plan had an aggregate intrinsic value of ₹ 223 and options exercisable under the DRL 2007 Plan had an aggregate intrinsic value of ₹ 23.

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

#### Valuation of stock options:

The fair value of stock options granted under the DRL 2002 Plan and the DRL 2007 Plan has been measured using the Black-Scholes-Merton model at the date of the grant.

The Black-Scholes-Merton model includes assumptions regarding dividend yields, expected volatility, expected terms and risk free interest rates. In respect of par value options granted under category B, the expected term of an option (or "option life") is estimated based on the vesting term, contractual term, as well as expected exercise behavior of the employees receiving the option. In respect of fair market value options granted under category A, the option life is estimated based on the simplified method. Expected volatility of the option is based on historical volatility, during a period equivalent to the option life, of the observed market prices of the Company's publicly traded equity shares. Dividend yield of the options is based on recent dividend activity. Risk-free interest rates are based on the government securities yield in effect at the time of the grant. These assumptions reflect management's best estimates, but these assumptions involve inherent market uncertainties based on market conditions generally outside of the Company's control. As a result, if other assumptions had been used in the current period, stock-based compensation expense could have been materially impacted. Further, if management uses different assumptions in future periods, stock-based compensation expense could be materially impacted in future years.

The estimated fair value of stock options is charged to income on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in-substance, multiple awards.

The weighted average inputs used in computing the fair value of options granted were as follows:

PARTICULARS	GRANTS MADE ON				
	10 JULY 2017	11 MAY 2017	15 NOVEMBER 2016	20 SEPTEMBER 2016	26 JULY 2016
Expected volatility	30.86%	31.08%	32.77%	32.92%	29.88%
Exercise price	₹ 5.00	₹ 5.00	₹ 5.00	₹ 5.00	₹ 5.00
Option life	2.5 Years	2.5 Years	2.5 Years	2.5 Years	2.5 Years
Risk-free interest rate	6.48%	6.69%	6.27%	6.81%	6.91%
Expected dividends	0.77%	0.77%	0.60%	0.60%	0.60%
Grant date share price	₹ 2,726.20	₹ 2,594.00	₹ 3,310.70	₹ 3,157.80	₹ 3,319.65

The fair value of services received in return for stock options granted to employees is measured by reference to the fair value of stock options granted.

#### Equity settled share-based payment expense

For the years ended 31 March 2018 and 2017, the Company recorded employee share-based payment expense of ₹ 454 and ₹ 350, respectively. As of 31 March 2018, there was ₹ 313 of total unrecognised compensation cost related to unvested stock options. This cost is expected to be recognised over a weighted-average period of 1.98 years.

#### Cash settled share-based payment expense

Certain of the Company's employees are eligible for share-based payment awards that are settled in cash. These awards entitle the employees to a cash payment, on the exercise date, upon satisfaction of certain service conditions which range from one to four years. The amount of cash payment is determined based on the price of the Company's ADS at the time of exercise. For the years ended 31 March 2018 and 31 March 2017, the Company recorded cash settled share-based payment expense of ₹ 28 and ₹ 48, respectively. As of 31 March 2018, there was ₹ 67 of total unrecognised compensation cost related to unvested awards. This cost is expected to be recognised over a weighted-average period of 1.96 years. This Scheme does not involve dealing in or subscribing to or purchasing securities of the Company, directly or indirectly.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.28 EMPLOYEE BENEFITS

Gratuity benefits provided by the parent company

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

The components of gratuity cost recognised in the consolidated statement of profit and loss for the years ended 31 March 2018 and 31 March 2017 consist of the following:

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Current service cost	252	221
Interest on net defined benefit liability, net	6	14
<b>Gratuity cost recognised in consolidated statement of profit and loss</b>	<b>258</b>	<b>235</b>

Details of the employee benefits obligations and plan assets are provided below:

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Present value of funded obligations	2,007	1,840
Fair value of plan assets	(1,958)	(1,687)
<b>Net defined benefit liability recognised</b>	<b>49</b>	<b>153</b>

Details of changes in the present value of defined benefit obligations are as follows:

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Defined benefit obligations at the beginning of the year	1,840	1,540
Current service cost	252	221
Interest on defined obligations	125	114
Re-measurements due to:		
Actuarial loss/(gain) due to change in financial assumptions	(121)	30
Actuarial loss/(gain) due to demographic assumptions	11	(12)
Actuarial loss/(gain) due to experience changes	62	62
Benefits paid	(162)	(115)
<b>Defined benefit obligations at the end of the year</b>	<b>2,007</b>	<b>1,840</b>

Details of changes in the fair value of plan assets are as follows:

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Fair value of plan assets at the beginning of the year	1,687	1,303
Employer contributions	313	348
Interest on plan assets	121	99
Re-measurements due to:		
Return on plan assets excluding interest on plan assets	(1)	52
Benefits paid	(162)	(115)
<b>Plan assets at the end of the year</b>	<b>1,958</b>	<b>1,687</b>

Sensitivity analysis:

PARTICULARS	AS AT 31 MARCH 2018
Defined benefit obligation without effect of projected salary growth	1,167
Add: Effect of salary growth	840
Defined benefit obligation with projected salary growth	2,007
Defined benefit obligation, using discount rate minus 50 basis points	2,082
Defined benefit obligation, using discount rate plus 50 basis points	1,936
Defined benefit obligation, using salary growth rate plus 50 basis points	2,081
Defined benefit obligation, using salary growth rate minus 50 basis points	1,937

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.28 EMPLOYEE BENEFITS (CONTINUED)

Summary of the actuarial assumptions: The actuarial assumptions used in accounting for the Gratuity Plan are as follows:

*The assumptions used to determine benefit obligations:*

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Discount rate	7.75%	7.20%
Rate of compensation increase	7% per annum for first year and 9% per annum thereafter	7% per annum for first year and 9% per annum thereafter

*The assumptions used to determine gratuity cost:*

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Discount rate	7.20%	7.80%
Rate of compensation increase	7% per annum for first year and 9% per annum thereafter	10% per annum for first 2 years and 9% per annum thereafter

Contributions: The Company expects to contribute ₹ 49 to the Gratuity Plan during the year ending 31 March 2019.

Disaggregation of plan assets: The Gratuity Plan's weighted-average asset allocation at 31 March 2018 and 31 March 2017, by asset category, was as follows:

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Funds managed by insurers	99%	99%
Others	1%	1%

The expected future cash flows in respect of gratuity as at 31 March 2018 were as follows:

PARTICULARS	AMOUNT
Expected contribution	
During the year ended 31 March 2019 (estimated)	49
Expected future benefit payments	
31 March 2019	244
31 March 2020	219
31 March 2021	212
31 March 2022	208
31 March 2023	208
Thereafter	2,951

Pension plan of the Company's subsidiary, Industrias Quimicas Falcon de Mexico

All employees of the Company's Mexican subsidiary, Industrias Quimicas Falcon de Mexico ("Falcon"), are entitled to a pension benefit in the form of a defined benefit pension plan. The Falcon pension plan provides for payment to vested employees at retirement or termination of employment. Liabilities in respect of the pension plan are determined by an actuarial valuation, based on which the Company makes contributions to the pension plan fund. This fund is administered by a third party, who is provided guidance by a technical committee formed by senior employees of Falcon.

The components of net pension cost recognised in the consolidated statement of profit and loss for the years ended 31 March 2018 and 31 March 2017 consist of the following:

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Current service cost	12	13
Interest on net defined benefit liability, net	13	12
Total cost recognised in the consolidated statement of profit and loss	25	25

Details of the employee benefits obligation and plan assets are provided below:

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Present value of funded obligations	243	218
Fair value of plan assets	(66)	(60)
Net defined benefit liability recognised	177	158

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.28 EMPLOYEE BENEFITS (CONTINUED)

Details of changes in the present value of defined benefit obligations are as follows:

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Defined benefit obligations at the beginning of the year	218	249
Current service cost	12	13
Interest on defined obligations	19	17
Re-measurements due to:		
Actuarial loss/(gain) due to change in financial assumptions	(6)	(24)
Actuarial loss/(gain) due to experience changes	(0)	7
Benefits paid	(8)	(19)
Foreign exchange differences	8	(25)
<b>Defined benefit obligations at the end of the year</b>	<b>243</b>	<b>218</b>

Details of changes in the fair value of plan assets are as follows:

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Fair value of plan assets at the beginning of the year	60	61
Employer contributions	8	19
Interest on plan assets	7	6
Re-measurements due to:		
Return on plan assets excluding interest on plan assets	(3)	(0)
Benefits paid	(8)	(19)
Foreign exchange differences	2	(7)
<b>Plan assets at the end of the year</b>	<b>66</b>	<b>60</b>

Sensitivity analysis:

PARTICULARS	AS AT 31 MARCH 2018
Defined benefit obligation without effect of projected salary growth	160
Add: Effect of salary growth	83
Defined benefit obligation with projected salary growth	243
Defined benefit obligation, using discount rate minus 50 basis points	254
Defined benefit obligation, using discount rate plus 50 basis points	232
Defined benefit obligation, using salary growth rate plus 50 basis points	255
Defined benefit obligation, using salary growth rate minus 50 basis points	231

Summary of the actuarial assumptions: The actuarial assumptions used in accounting for the Falcon defined benefit plans are as follows:

*The assumptions used to determine benefit obligations:*

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Discount rate	9.00%	8.75%
Rate of compensation increase	4.50%	4.50%

*The assumptions used to determine defined benefit cost:*

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Discount rate	8.75%	7.75%
Rate of compensation increase	4.50%	4.50%

Contributions: The Company expects to contribute ₹ 36 to the Falcon defined benefit plans during the year ending 31 March 2019.

Disaggregation of plan assets: The Falcon pension plan's weighted-average asset allocation at 31 March 2018 and 31 March 2017, by asset category is as follows:

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Corporate bonds	51%	51%
Others	49%	49%

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.28 EMPLOYEE BENEFITS (CONTINUED)

The expected future cash flows in respect of post-employment benefit plans in Mexico as at 31 March 2018 were as follows:

PARTICULARS	AMOUNT
Expected contribution	
During the year ended 31 March 2019 (estimated)	36
Expected future benefit payments	
31 March 2019	3
31 March 2020	6
31 March 2021	8
31 March 2022	11
31 March 2023	13
Thereafter	607

#### Provident fund benefits

Certain categories of employees of the Company receive benefits from a provident fund, a defined contribution plan. Both the employee and employer each make monthly contributions to a government administered fund equal to 12% of the covered employee's qualifying salary. The Company has no further obligations under the plan beyond its monthly contributions. The Company contributed ₹ 735 and ₹ 682 to the provident fund plan during the years ended 31 March 2018 and 31 March 2017, respectively.

#### Superannuation benefits

Certain categories of employees of the Company participate in superannuation, a defined contribution plan administered by the Life Insurance Corporation of India. The Company makes annual contributions based on a specified percentage of each covered employee's salary. The Company has no further obligations under the plan beyond its annual contributions. The Company contributed ₹ 88 and ₹ 79 to the superannuation plan during the years ended 31 March 2018 and 31 March 2017, respectively.

#### Other contribution plans

In the United States, the Company sponsors a defined contribution 401(k) retirement savings plan for all eligible employees who meet minimum age and service requirements. The Company contributed ₹ 212 and ₹ 231 to the 401(k) retirement savings plan during the years ended 31 March 2018 and 31 March 2017, respectively. The Company has no further obligations under the plan beyond its annual matching contributions.

In the United Kingdom, certain social security benefits (such as pension, unemployment and disability) are funded by employers and employees through mandatory National Insurance contributions. The contribution amounts are determined based upon the employee's salary. The Company has no further obligations under the plan beyond its monthly contributions. The Company contributed ₹ 135 and ₹ 134 to the National Insurance during the years ended 31 March 2018 and 31 March 2017, respectively.

#### Compensated absences

The Company provides for accumulation of compensated absences by certain categories of its employees. These employees can carry forward a portion of the unutilised compensated absences and utilise it in future periods or receive cash in lieu thereof as per the Company's policy. The Company records a liability for compensated absences in the period in which the employee renders the services that increases this entitlement. The total liability recorded by the Company towards this obligation was ₹ 1,093 and ₹ 855 as at 31 March 2018 and 31 March 2017, respectively.

#### Long-term incentive plan

Certain senior management employees of the Company participate in a long-term incentive plan which is aimed at rewarding the individual, based on performance of such individual, their business unit/function and the Company as a whole, with significantly higher rewards for superior performances. The total liability recorded by the Company towards this benefit was ₹ Nil and ₹ 622 as at 31 March 2018 and 31 March 2017, respectively.

Total employee benefit expenses, including share-based payments, incurred during the years ended 31 March 2018 and 31 March 2017 amounted to ₹ 32,149 and ₹ 31,068, respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.29 INCOME TAXES

a) Income tax expense/(benefit) recognised in the consolidated statement of profit and loss

Income tax expense recognised in the consolidated statement of profit and loss consists of the following:

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
<b>Current taxes expense</b>		
Domestic	1,387	1,936
Foreign	366	1,160
	<b>1,753</b>	<b>3,096</b>
<b>Deferred taxes expense/(benefit)</b>		
Domestic	(78)	(124)
Foreign	2,705	(7)
	<b>2,627</b>	<b>(131)</b>
<b>Total income tax expense recognised in the consolidated statement of profit and loss</b>	<b>4,380</b>	<b>2,965</b>

b) Income tax expense/(benefit) recognised directly in equity

Income tax expense/(benefit) recognised directly in equity consist of the following:

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Tax effect on changes in fair value of investments	(893)	418
Tax effect on foreign currency translation differences	17	(177)
Tax effect on effective portion of change in fair value of cash flow hedges	(40)	41
Tax effect on actuarial gains/losses on defined benefit obligations	19	(14)
	<b>(897)</b>	<b>268</b>

c) Reconciliation of effective tax rate

The following is a reconciliation of the Company's effective tax rates for the years ended 31 March 2018 and 31 March 2017:

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Profit before income taxes	13,504	15,537
Enacted tax rate in India	34.61%	34.61%
Computed expected tax expense	4,674	5,377
<i>Effect of:</i>		
Differences between Indian and foreign tax rates	(772)	(123)
(Unrecognised deferred tax assets)/recognition of previously unrecognised deferred tax assets, net	1,649	2,845
Expenses not deductible for tax purposes	255	539
Income exempt from income taxes	(625)	(279)
Foreign exchange differences	(46)	(539)
Incremental deduction allowed for research and development costs <sup>(1)</sup>	(1,324)	(3,111)
Tax expenses on dividend from subsidiary outside India	-	3
Effect of change in tax laws and rate in jurisdictions outside India	1,269	(100)
Investment allowance deduction	-	(363)
Reversal of earlier year's tax provisions	(160)	(1,370)
Others	(540)	86
<b>Income tax expense</b>	<b>4,380</b>	<b>2,965</b>
<b>Effective tax rate</b>	<b>32.43%</b>	<b>19.08%</b>

<sup>(1)</sup> India's Finance Act, 2016 incorporated an amendment that reduces the weighted deduction on eligible research and development expenditure in a phased manner from 200% to 150% commencing from 1 April 2017.

The increase in the Company's effective tax rate for the year ended 31 March 2018 as compared to the year ended 31 March 2017 was primarily on account of the following:

- re-measurement of deferred tax assets and liabilities of the Company's subsidiaries in the United States due to the enactment of The Tax Cuts and Jobs Act of 2017 in the United States on 22 December 2017. Due to this enactment, the Company re-measured its U.S. deferred tax assets and liabilities based on the new tax law. This resulted in a charge of ₹ 1,269 for the year ended 31 March 2018, primarily to reflect the impact on our U.S. deferred tax assets of the reduction in the corporate federal income tax rate from 35% to 21% under the new tax law; and
- the foregoing was partially offset by changes in the Company's jurisdictional mix of earnings (i.e., an increase in the proportion of the Company's profits from lower tax jurisdictions and a decrease in the proportion of the Company's profits from higher tax jurisdictions) for the year ended 31 March 2018, as compared to the year ended 31 March 2017.

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.29 INCOME TAXES (CONTINUED)

#### d) Unrecognised deferred tax assets and liabilities

The details of unrecognised deferred tax assets and liabilities are summarised below:

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Deductible temporary differences, net	4,977	3,510
Operating tax loss carry forward	4,030	3,061
	<b>9,007</b>	<b>6,571</b>

During the year ended 31 March 2018, the Company did not recognise deferred tax assets of ₹ 969 on operating tax losses pertaining primarily to Dr. Reddy's Venezuela, C.A. and certain other subsidiaries of the Company. During the year ended 31 March 2018, the Company did not recognise deferred tax assets of ₹ 1,467 on certain deductible temporary differences, as the Company believes that it is not probable that there will be available taxable profits against which such temporary differences can be utilised.

Deferred income taxes are not provided on undistributed earnings of ₹ 30,923 as at 31 March 2018, of subsidiaries outside India, where it is expected that earnings of the subsidiaries will not be distributed in the foreseeable future. Generally, the Company indefinitely reinvests all the accumulated undistributed earnings of foreign subsidiaries, and accordingly, has not recorded any deferred taxes in relation to such undistributed earnings of its foreign subsidiaries. It is impracticable to determine the taxes payable when these earnings are remitted.

#### e) Deferred tax assets and liabilities

The tax effects of significant temporary differences that resulted in deferred tax assets and liabilities and a description of the items that created these differences is given below:

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
<b>Deferred tax assets/(liabilities)</b>		
Inventory	1,805	2,389
Minimum Alternate Tax*	1,630	1,637
Trade receivables	737	1,386
Operating tax loss and interest loss carry-forward	112	1,329
Current liabilities and provisions	656	805
Property, plant and equipment	(2,224)	(1,673)
Investments	693	(704)
Others	46	(5)
<b>Net deferred tax assets</b>	<b>3,455</b>	<b>5,164</b>

\* As per Indian tax laws, companies are liable for a Minimum Alternate Tax ("MAT" tax) when current tax, as computed under the provisions of the Income Tax Act, 1961 ("Tax Act"), is determined to be below the MAT tax computed under section 115JB of the Tax Act. The excess of MAT tax over current tax is eligible to be carried forward and set-off in the future against the current tax liabilities over a period of 15 years.

In assessing whether the deferred income tax assets will be realised, management considers whether some portion or all of the deferred income tax assets will not be realised. The ultimate realisation of the deferred income tax assets and tax loss carry forwards is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. Management considers the scheduled reversals of deferred tax liabilities, projected future taxable income and tax planning strategy in making this assessment. Based on the level of historical taxable income and projections of future taxable income over the periods in which the deferred tax assets are deductible, management believes that the Company will realise the benefits of those recognised deductible differences and tax loss carry forwards. Recoverability of deferred tax assets is based on estimates of future taxable income. Any changes in such future taxable income would impact the recoverability of deferred tax assets.

Operating loss carry forward consists of business losses, unabsorbed depreciation and unabsorbed interest carry-forwards. A portion of this total loss can be carried indefinitely and the remaining amounts expire at various dates ranging from 2019 through 2028.

#### f) Movement in deferred tax assets and liabilities during the year ended 31 March 2018

PARTICULARS	AS AT 1 APRIL 2017	RECOGNISED IN THE CONSOLIDATED STATEMENT OF PROFIT AND LOSS	RECOGNISED IN EQUITY	AS AT 31 MARCH 2018
<b>Deferred tax assets/(liabilities)</b>				
Inventory	2,389	(584)	-	1,805
Minimum Alternate Tax	1,637	(7)	-	1,630
Trade receivables	1,386	(649)	-	737
Operating tax loss and interest loss carry-forward	1,329	(1,217)	-	112
Current liabilities and provisions	805	(158)	9	656
Property, plant and equipment	(1,673)	(551)	-	(2,224)
Investments	(704)	504	893	693
Others	(5)	51	-	46
<b>Net deferred tax assets/(liabilities)</b>	<b>5,164</b>	<b>(2,611)</b>	<b>902</b>	<b>3,455</b>



(All amounts in Indian Rupees millions, except share data and where otherwise stated)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.29 INCOME TAXES (CONTINUED)

The amounts recognised in the consolidated statement of profit and loss during the years ended 31 March 2018 include ₹ 16, which represent exchange differences arising due to foreign currency translations.

### 2.30 OTHER INVESTMENTS

Other investments consist of investments in units of mutual funds, equity securities and term deposits (i.e., certificates of deposit having an original maturity period exceeding 3 months and less than 12 months) with banks. The details of such investments as of 31 March 2018 are as follows:

PARTICULARS	COST	(LOSS)/GAIN RECOGNISED DIRECTLY IN EQUITY	GAIN RECOGNISED DIRECTLY IN CONSOLIDATED STATEMENT OF PROFIT AND LOSS	FAIR VALUE/ AMORTISED COST*
<b>Current portion</b>				
Investment in units of mutual funds	14,703	-	75	14,778
Investment in bonds	3,279	-	-	3,279
Investment in commercial paper	232	-	-	232
Term deposits with banks	41	-	-	41
	<b>18,255</b>	<b>-</b>	<b>75</b>	<b>18,330</b>
<b>Non-current portion</b>				
Investment in bonds	1,354	-	-	1,354
Investment in equity securities <sup>(1)</sup>	2,703	(1,508)	-	1,195
	<b>4,057</b>	<b>(1,508)</b>	<b>-</b>	<b>2,549</b>
<b>Total</b>	<b>22,312</b>	<b>(1,508)</b>	<b>75</b>	<b>20,879</b>

As of 31 March 2017, the details of such investments were as follows:

PARTICULARS	COST	(LOSS)/GAIN RECOGNISED DIRECTLY IN EQUITY	GAIN RECOGNISED DIRECTLY IN CONSOLIDATED STATEMENT OF PROFIT AND LOSS	FAIR VALUE/ AMORTISED COST*
<b>Current portion</b>				
Investment in units of mutual funds	9,464	-	1,417	10,881
Term deposits with banks	3,390	-	-	3,390
	<b>12,854</b>	<b>-</b>	<b>1,417</b>	<b>14,271</b>
<b>Non-current portion</b>				
Investment in units of mutual funds	213	-	47	260
Investment in equity securities <sup>(1)</sup>	2,703	2,260	-	4,963
	<b>2,916</b>	<b>2,260</b>	<b>47</b>	<b>5,223</b>
<b>Total</b>	<b>15,770</b>	<b>2,260</b>	<b>1,464</b>	<b>19,494</b>

<sup>(1)</sup> Primarily represents the shares of Curis, Inc. (Refer note 2.36)

\* Interest accrued but not due on bonds, commercial paper and term deposits with banks is included in other current financial assets.

### Investment in unquoted mutual funds (Refer note 2.4 A)

FUND NAME	AS AT 31 MARCH 2018		AS AT 31 MARCH 2017	
	UNITS	AMOUNT	UNITS	AMOUNT
Birla Sun Life Savings Fund - Direct Plan - Growth	11,096,623	3,816	-	-
Reliance Medium Term Fund - Direct Plan - Growth	101,334,961	3,770	23,140,046	803
Birla Sunlife Cash Manager - Direct Plan - Growth	5,229,891	2,280	-	-
IDFC Corporate bond Fund - Direct Plan - Growth	143,093,733	1,713	-	-
Axis Treasury Advantage Fund - Direct Plan - Growth	657,309	1,302	-	-
L&T Liquid Fund - Direct Plan - Growth	420,151	1,001	269,122	600
Sundaram Banking & PSU Fund - Direct Plan - Growth	25,615,785	701	-	-
IDFC Ultra Short Term Fund - Direct Plan - Growth	6,316,131	157	-	-
SBI Treasury Advantage Fund - Regular Plan - Growth	10,409	20	-	-
L&T Ultra Short Term Fund - Direct Plan - Growth	632,559	18	-	-
Reliance FRF - Short Term - Direct Plan - Growth	-	-	46,642,822	1,226
TATA Money Market Fund - Direct Plan - Growth	-	-	470,148	1,205
Birla Sun Life Treasury Optimizer Plan - Direct Plan - Growth	-	-	5,645,005	1,187
IDFC Super Saver Income Fund MTP - Direct Plan - Growth	-	-	34,380,316	982
Axis Short Term Fund - Direct Plan - Growth	-	-	41,901,856	771
IDFC Super Saver Income Fund - Short Term Plan - Growth	-	-	19,461,900	668
Birla SL Short Term Fund - Direct Plan - Growth	-	-	9,658,402	604

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.30 OTHER INVESTMENTS (CONTINUED)

FUND NAME	AS AT 31 MARCH 2018		AS AT 31 MARCH 2017	
	UNITS	AMOUNT	UNITS	AMOUNT
HSBC Income Fund Short Term Plan - Direct Plan - Growth	-	-	21,501,955	601
ICICI Prudential Flexible income - Direct Plan - Growth	-	-	1,919,547	600
HDFC Short Term Opportunities Fund - Direct Plan - Growth	-	-	28,546,552	517
ICICI Prudential Banking & PSU Debt- Direct Plan - Growth	-	-	26,068,852	493
Sundaram Ultra Short Term - Direct Plan - Bonus Plan	-	-	29,038,263	377
Reliance Short Term Fund - Direct Plan - Growth	-	-	11,772,000	372
IDFC SSIF MTP - Direct Plan - Growth	-	-	4,723,077	135
	<b>294,407,553</b>	<b>14,778</b>	<b>305,139,863</b>	<b>11,141</b>

### 2.31 OPERATING LEASES

The Company has leased office space and vehicles under various operating lease agreements that are renewable on a periodic basis at the option of both the lessor and the lessee. Rental expense under these leases was ₹ 787 and ₹ 751 for the years ended 31 March 2018 and 31 March 2017 respectively.

The schedule of future minimum rental payments in respect of non-cancellable operating leases is set out below:

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Less than one year	496	384
Between one and five years	1,144	961
More than five years	289	365
	<b>1,929</b>	<b>1,710</b>

During the year ended 31 March 2014, the Company entered into a non-cancellable operating lease for an office and laboratory facility in the United States. The future minimum rental payments in respect of this lease are ₹ 945 (US\$ 14 million) and ₹ 904 (US\$14 million) as at 31 March 2018 and 31 March 2017, respectively.

### 2.32 FINANCE LEASES

The Company has leased buildings, plant and machinery and vehicles under finance leases.

Future minimum lease payments under finance leases as at 31 March 2018 were as follows:

PARTICULARS	PRESENT VALUE OF MINIMUM LEASE PAYMENTS	INTEREST	FUTURE MINIMUM LEASE PAYMENTS
Not later than one year	63	57	120
Between one and five years	257	159	416
More than five years	373	66	439
	<b>693</b>	<b>282</b>	<b>975</b>

Future minimum lease payments under finance leases as at 31 March 2017 were as follows:

PARTICULARS	PRESENT VALUE OF MINIMUM LEASE PAYMENTS	INTEREST	FUTURE MINIMUM LEASE PAYMENTS
Not later than one year	110	77	187
Between one and five years	217	149	366
More than five years	380	84	464
	<b>707</b>	<b>310</b>	<b>1,017</b>

### 2.33 FINANCIAL INSTRUMENTS

Set out below, is a comparison by class of the carrying amounts and fair value of the Group's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

PARTICULARS	CARRYING VALUE		FAIR VALUE/AMORTISED COST	
	31 MARCH 2018	31 MARCH 2017	31 MARCH 2018	31 MARCH 2017
<b>Financial assets</b>				
Cash and cash equivalents	2,638	3,865	2,638	3,865
Investments*	20,879	19,494	20,879	19,494
Trade receivables	40,696	38,196	40,696	38,196
Derivative instruments	105	264	105	264
Other financial assets	2,289	2,261	2,289	2,261
<b>Total</b>	<b>66,607</b>	<b>64,080</b>	<b>66,607</b>	<b>64,080</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.33 FINANCIAL INSTRUMENTS (CONTINUED)

PARTICULARS	CARRYING VALUE		FAIR VALUE/AMORTISED COST	
	31 MARCH 2018	31 MARCH 2017	31 MARCH 2018	31 MARCH 2017
<b>Financial liabilities</b>				
Trade payables	13,345	10,569	13,345	10,569
Long-term borrowings	25,152	5,559	25,152	5,559
Short-term borrowings	25,562	43,626	25,562	43,626
Derivative instruments	85	10	85	10
Other financial liabilities	19,578	18,813	19,578	18,813
<b>Total</b>	<b>83,722</b>	<b>78,577</b>	<b>83,722</b>	<b>78,577</b>

\* Interest accrued but not due on investments is included in other financial assets.

#### Fair value hierarchy

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

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

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

The following table presents the fair value hierarchy of assets and liabilities measured at fair value on a recurring basis as of 31 March 2018:

PARTICULARS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
FVTPL - Financial asset - Investments in units of mutual funds	14,778	-	-	14,778
FVTOCI - Financial asset - Investment in equity securities	1,194	-	-	1,194
Derivative financial instruments - gain/(loss) on outstanding foreign exchange forward, option and swap contracts and interest rate swap contracts <sup>(1)</sup>	-	20	-	20

The following table presents the fair value hierarchy of assets and liabilities measured at fair value on a recurring basis as of 31 March 2017:

PARTICULARS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
FVTPL - Financial asset - Investments in units of mutual funds	11,141	-	-	11,141
FVTOCI - Financial asset - Investment in equity securities	4,962	-	-	4,962
Derivative financial instruments - gain/(loss) on outstanding foreign exchange forward, option and swap contracts and interest rate swap contracts <sup>(1)</sup>	-	254	-	254

<sup>(1)</sup> The Company enters into derivative financial instruments with various counterparties, principally financial institutions and banks. Derivatives valued using valuation techniques with market observable inputs are mainly interest rate swaps, foreign exchange forward option and swap contracts. The most frequently applied valuation techniques include forward pricing, swap models and Black-Scholes-Merton models (for option valuation), using present value calculations. The models incorporate various inputs including foreign exchange forward rates, interest rate curves and forward rate curves.

As at 31 March 2018, the changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognised at fair value.

#### Derivative financial instruments

The Company had a derivative financial asset and derivative financial liability of ₹ 105 and ₹ 85, respectively, as of 31 March 2018 as compared to derivative financial asset and derivative financial liability of ₹ 264 and ₹ 10, respectively, as of 31 March 2017 towards these derivative financial instruments.

#### Details of gain/(loss) recognised in respect of derivative contracts

The following table presents details in respect of the gain/(loss) recognised in respect of derivative contracts during the applicable year ended :

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Net gain recognised as part of foreign exchange gain and losses in respect of foreign exchange derivative contracts	161	699
Net gain/(loss) recognised in equity in respect of hedges of highly probable forecast transactions	(79)	968
Net gain/(loss) recognised as component of revenue	651	(683)

The net carrying amount of the Company's "hedging reserve" as a component of equity before adjusting for tax impact was a gain of ₹ 49 as at 31 March 2018, as compared to a gain of ₹ 129 as at 31 March 2017.

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.33 FINANCIAL INSTRUMENTS (CONTINUED)

#### Outstanding foreign exchange derivative contracts

The following table gives details in respect of the notional amount of outstanding foreign exchange derivative contracts as of 31 March 2018:

					Amount in millions
CATEGORY	INSTRUMENT	CURRENCY	CROSS CURRENCY <sup>(1)</sup>	AMOUNT	BUY/SELL
Hedges of recognised assets and liabilities	Forward contract	US\$	INR	US\$ 72	Sell
	Forward contract	GBP	US\$	GBP 31	Buy
	Forward contract	US\$	RUB	US\$ 38	Buy
	Option contract	US\$	INR	US\$ 65	Sell
Hedges of highly probable forecasted transactions	Forward contract	RUB	INR	RUB 1,080	Sell
	Option contract	US\$	INR	US\$ 240	Sell

The following table gives details in respect of the notional amount of outstanding foreign exchange derivative contracts as of 31 March 2017:

					Amount in millions
CATEGORY	INSTRUMENT	CURRENCY	CROSS CURRENCY <sup>(1)</sup>	AMOUNT	BUY/SELL
Hedges of recognised assets and liabilities	Forward contract	US\$	INR	US\$ 193.5	Sell
	Forward contract	US\$	RON	US\$ 3.0	Buy
	Forward contract	US\$	RUB	US\$ 20.0	Buy
	Forward contract	EUR	US\$	EUR 95.0	Sell
	Forward contract	GBP	US\$	US\$ 14.1	Buy
	Option contract	US\$	INR	US\$ 80.0	Sell
Hedges of highly probable forecasted transactions	Forward contract	RUB	INR	RUB 150.0	Sell
	Option contract	US\$	INR	US\$ 180.0	Sell

<sup>(1)</sup> "INR" means Indian Rupees, "RON" means Romanian new leus, and "RUB" means Russian roubles.

The table below summarises the periods when the cash flows associated with highly probable forecasted transactions that are classified as cash flow hedges are expected to occur:

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
<b>Cash flows in US Dollars</b>		
Not later than one month	1,955	973
Later than one month and not later than three months	3,911	1,946
Later than three months and not later than six months	5,866	2,918
Later than six months and not later than one year	3,910	5,837
	<b>15,642</b>	<b>11,674</b>
<b>Cash flows in Russian Roubles</b>		
Not later than one month	102	57
Later than one month and not later than three months	204	115
Later than three months and not later than six months	306	-
Later than six month and not later than one year	611	-
	<b>1,223</b>	<b>172</b>

#### Hedges of changes in the interest rates

Consistent with its risk management policy, the Company uses interest rate swaps (including cross currency interest rate swaps) to mitigate the risk of changes in interest rates. The Company does not use them for trading or speculative purposes.

The changes in fair value of such interest rate swaps (including cross currency interest rate swaps) are recognised as part of finance cost. Accordingly the Company has recorded, as part of finance cost, a net gain of ₹ 9 for the year ended 31 March 2018.

As at 31 March 2018, the Company had outstanding interest swap arrangements that hedged a portion of interest rate risk arising from floating rate, dollar denominated foreign currency borrowing of US\$ 50. As at 31 March 2017, the Company had no outstanding interest rate swap arrangements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.34 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 minimise 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 analyse 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 the Company's risk assessment and management policies and processes.

#### a) Market risk

Market risk is the risk of loss of future earnings, fair values or future cash flows that may result from adverse changes in market rates and prices (such as interest rates, foreign currency exchange rates and commodity prices) or in the price of market risk-sensitive instruments as a result of such adverse changes in market rates and prices. Market risk is attributable to all market risk-sensitive financial instruments, all foreign currency receivables and payables and all short-term 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 foreign exchange risk arises from its foreign operations, foreign currency revenues and expenses, (primarily in US dollars, Russian roubles, Ukrainian hryvnias, UK pounds sterling and Euros) and foreign currency borrowings (in US dollars, Russian roubles 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 Indian 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 both derivative and non-derivative financial instruments, such as foreign exchange forward contracts, option contracts, currency swap contracts and foreign currency financial liabilities, to mitigate the risk of changes in foreign currency exchange rates in respect of its highly probable forecast transactions and recognised assets and liabilities.

The details in respect of the outstanding foreign exchange forward and option contracts are given in note 2.33 above.

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:

- a ₹ 1,277/(1,338) increase/(decrease) in the Company's hedging reserve and an a ₹ 403/(308) increase/(decrease) in the Company's profit from such contracts, as at 31 March 2018;
- a ₹ 1,154/(710) increase/(decrease) in the Company's hedging reserve and an a ₹ 2,143/(2,287) increase/(decrease) in the Company's profit from such contracts, as at 31 March 2017.

The following table analyses foreign currency risk from non-derivative financial instruments as at 31 March 2018:

PARTICULARS	All amounts in equivalent Indian Rupees millions				
	US DOLLARS	EURO	RUSSIAN ROUBLES	OTHERS <sup>(1)</sup>	TOTAL
<b>Assets</b>					
Cash and cash equivalents	392	62	56	512	1,022
Investments	-	-	-	20	20
Trade receivables	25,427	437	6,681	2,592	35,137
Other financial assets	125	85	260	196	666
<b>Total</b>	<b>25,944</b>	<b>584</b>	<b>6,997</b>	<b>3,320</b>	<b>36,845</b>
<b>Liabilities</b>					
Trade payables	3,036	1,566	2	328	4,932
Long-term borrowings	4,888	-	-	-	4,888
Short-term borrowings	19,552	-	2,378	178	22,108
Other financial liabilities	3,831	227	1,905	705	6,668
<b>Total</b>	<b>31,307</b>	<b>1,793</b>	<b>4,285</b>	<b>1,211</b>	<b>38,596</b>

<sup>(1)</sup> Others primarily consists of UK pounds sterling, Swiss francs, Romanian new leus and Ukrainian hryvnia.

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.34 FINANCIAL RISK MANAGEMENT (CONTINUED)

The following table analyses foreign currency risk from non-derivative financial instruments as at 31 March 2017:

PARTICULARS	All amounts in equivalent Indian Rupees millions				
	US DOLLARS	EURO	RUSSIAN ROUBLES	OTHERS <sup>(1)</sup>	TOTAL
<b>Assets</b>					
Cash and cash equivalents	130	87	59	841	1,117
Investments	-	-	-	14	14
Trade receivables	24,577	567	6,226	2,113	33,483
Other assets	457	-	274	33	764
<b>Total</b>	<b>25,164</b>	<b>654</b>	<b>6,559</b>	<b>3,001</b>	<b>35,378</b>
<b>Liabilities</b>					
Trade payables	2,073	822	-	315	3,210
Long-term borrowings	4,852	-	76	-	4,928
Short-term borrowings	13,056	-	4,023	-	17,079
Other financial liabilities	4,534	199	1,640	628	7,001
<b>Total</b>	<b>24,515</b>	<b>1,021</b>	<b>5,739</b>	<b>943</b>	<b>32,218</b>

<sup>(1)</sup> Others primarily consists of UK pounds sterling, Swiss francs, Romanian new leus and Ukrainian hryvnia.

For the years ended 31 March 2018 and 31 March 2017, every 10% depreciation/appreciation in the exchange rate between the Indian rupee and the respective currencies for the above mentioned financial assets/liabilities would affect the Company's net profit by ₹ 175 and ₹ 316, respectively.

#### Interest rate risk

As of 31 March 2018, the Company had ₹ 42,592 of loans carrying a floating interest rate ranging from 1 Month LIBOR minus 30 bps to 1 Month/3 Months LIBOR plus 85 bps. As of 31 March 2017, the Company had ₹ 41,407 of loans carrying a floating interest rate of 1 Month LIBOR minus 30 bps to 1 Month LIBOR plus 82.7 bps and the Indian Treasury Bill plus 30 bps. These loans expose the Company to risk of changes in interest rates. The Company'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.

For details of the Company's short-term and long-term loans and borrowings, including interest rate profiles, refer to note 2.8 A and B of these consolidated financial statements.

For the years ended 31 March 2018 and 31 March 2017, every 10% increase or decrease in the floating interest rate component (i.e., LIBOR) applicable to its loans and borrowings would affect the Company's net profit by ₹ 77 and ₹ 46, respectively.

The carrying value of the Company's borrowings designated in a cash flow hedge as of 31 March 2018 was ₹ 3,259. In respect of these borrowings, a 10% decrease/increase in the interest rates of such borrowings would have resulted in a ₹ 18/(20) increase/decrease in the Company's hedging reserve as at 31 March 2018.

The Company's investments in term deposits (i.e., certificates of deposit) 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. As of 31 March 2018, the Company had not entered into any material derivative contracts to hedge exposure to fluctuations in commodity prices.

#### b) 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 and investment securities. 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. The Company establishes an allowance for credit losses and impairment that represents its estimate of expected losses in respect of trade and other receivables and investments.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.34 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 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.

#### Investments

The Company limits its exposure to credit risk by generally investing in liquid securities and only with counterparties that have a good credit rating. The Company does not expect any losses from non-performance by these counter-parties, and does not have any significant concentration of exposures to specific industry sectors or specific country risks.

#### Financial assets that are neither past due nor impaired

None of the Company's cash equivalents, including term deposits (i.e., certificates of deposit) with banks, were past due or impaired as at 31 March 2018. Of the total trade receivables, ₹ 35,747 as at 31 March 2018 and ₹ 27,813 as at 31 March 2017 consisted of customer balances that were neither past due nor impaired.

#### Financial assets that are past due

The Company's credit period for customers generally ranges from 20 - 180 days. The aging of trade receivables that are past due but not impaired is given below:

PERIOD (IN DAYS)	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
1 - 90	4,510	8,380
90 - 180	177	707
More than 180	1,303	2,231
<b>Total</b>	<b>5,990</b>	<b>11,318</b>
Less : Allowance for credit loss	(1,041)	(935)
<b>Net trade receivables</b>	<b>4,949</b>	<b>10,383</b>

The Company uses Expected Credit Loss (ECL) model for assessing the impairment loss. For this purpose, the Company uses a provision matrix to compute the expected credit loss amount for trade receivables. The provision matrix takes into account external and internal credit risk factors and historical data of credit losses from various customers.

Other than trade receivables, the Company has no significant class of financial assets that is past due but not impaired.

#### Reconciliation of allowance for credit losses

The details of changes in allowance for credit losses during the year ended 31 March 2018 and 31 March 2017 are as follows:

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017
Balance at the beginning of the year	935	846
Provision made/(reversed) during the year, net	169	158
Trade receivables written off during the year	(81)	(63)
Effect of changes in the foreign exchange rates	18	(6)
<b>Balance at the end of the year</b>	<b>1,041</b>	<b>935</b>

#### c) 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.

As of 31 March 2018 and 31 March 2017, the Company had unutilised credit limits from banks of ₹ 24,046 and ₹ 21,156 respectively.

As of 31 March 2018, the Company had working capital of ₹ 36,046, including cash and cash equivalents of ₹ 2,638, investments in term deposits (i.e., bank certificates of deposit having original maturities of more than 3 months) of ₹ 41, investment in bonds of ₹ 4,633, investment in commercial paper of ₹ 232 and investments in FVTPL financial assets of ₹ 14,778. As of 31 March 2017, the Company had working capital of ₹ 12,638, including cash and cash equivalents of ₹ 3,865, investments in term deposits (i.e., bank certificates of deposit having original maturities of more than 3 months) of ₹ 3,390 and investments in FVTPL financial assets of ₹ 10,881.

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.34 FINANCIAL RISK MANAGEMENT (CONTINUED)

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 2.32 to these consolidated financial statements) as at 31 March 2018:

PARTICULARS	2019	2020	2021	2022	THEREAFTER	TOTAL
Trade payables	13,345	-	-	-	-	13,345
Long-term borrowings	-	4,005	6,322	1,105	13,027	24,459
Short-term borrowings	25,562	-	-	-	-	25,562
Derivative instruments	85	-	-	-	-	85
Other financial liabilities	19,497	51	16	16	61	19,641

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 2.32 to these consolidated financial statements) as at 31 March 2017:

PARTICULARS	2018	2019	2020	2021	THEREAFTER	TOTAL
Trade payables	10,569	-	-	-	-	10,569
Long-term borrowings	-	-	1,610	3,242	-	4,852
Short-term borrowings	43,626	-	-	-	-	43,626
Derivative instruments	10	-	-	-	-	10
Other financial liabilities	18,630	88	7	6	82	18,813

### 2.35 CONTINGENT LIABILITIES AND COMMITMENTS

#### A. Contingent liabilities (claims against the company not acknowledged as debts)

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

Although there can be no assurance regarding the outcome of any of the legal proceedings or investigations referred to in this Note, the Company does not expect them to have a materially adverse effect on its financial position, as it believes that the likelihood of loss in excess of amounts accrued (if any) is not probable. However, if one or more of such proceedings were to result in judgements against the Company, such judgements could be material to its results of operations in a given period.

#### (i) Product and patent related matters

Matters relating to National Pharmaceutical Pricing Authority

##### *Norfloxacin, India litigation*

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

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.35 CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

During the year ended 31 March 2006, the Company received a notice from the NPPA demanding the recovery of the price charged by the Company for sales of Norfloxacin in excess of the maximum selling price fixed by the NPPA, which was ₹ 285 including interest. The Company filed a writ petition in the High Court challenging this demand order. The High Court admitted the writ petition and granted an interim order, directing the Company to deposit 50% of the principal amount claimed by the NPPA, which was ₹ 77. The Company deposited this amount with the NPPA in November 2005. In February 2008, the High Court directed the Company to deposit an additional amount of ₹ 30, which was deposited by the Company in March 2008. In November 2010, the High Court allowed the Company's application to include additional legal grounds that the Company believed strengthened its defense against the demand. For example, the Company added as grounds that trade margins should not be included in the computation of amounts overcharged, and that it was necessary for the NPPA to set the active pharmaceutical ingredient price before the process of determining the ceiling on the formulation price. In October 2013, the Company filed an additional writ petition before the Supreme Court challenging the inclusion of Norfloxacin as a "specified product" under the DPCO. In January 2015, the NPPA filed a counter affidavit stating that the inclusion of Norfloxacin was based upon the recommendation of a committee consisting of experts in the field. On 20 July 2016, the Supreme Court remanded the matters concerning the inclusion of Norfloxacin as a "specified product" under the DPCO back to the High Court for further proceedings.

During the three months ended 30 September 2016, the Supreme Court dismissed the Special Leave Petition pertaining to the fixing of prices for Norfloxacin formulations.

During the three months ended 31 December 2016, a writ petition pertaining to Norfloxacin was filed by the Company with the Delhi High Court. Upon the request of the respondents to file a counter, the Delhi High Court has adjourned the matter to 26 November 2018.

Based on its best estimate, the Company has recorded a provision for potential liability for sale proceeds in excess of the notified selling prices, including the interest thereon, and believes that the likelihood of any further liability that may arise on account of penalties pursuant to this litigation is not probable.

#### *Litigation relating to Cardiovascular and Anti-diabetic formulations*

In July 2014, the NPPA, pursuant to the guidelines issued in May 2014 and the powers granted by the Government of India under the Drugs (Price Control) Order, 2013, issued certain notifications regulating the prices for 108 formulations in the cardiovascular and anti-diabetic therapeutic areas. The Indian Pharmaceutical Alliance ("IPA"), in which the Company is a member, filed a writ petition in the Bombay High Court challenging the notifications issued by the NPPA on the grounds that they were ultra vires, ex facie and ab initio void. The Bombay High Court issued an order to stay the writ in July 2014. On 26 September 2016, the Bombay High Court dismissed the writ petition filed by the IPA and upheld the validity of the notifications/orders passed by the NPPA in July 2014. Further, on 25 October 2016, the IPA filed a Special Leave Petition with the Supreme Court, which was dismissed by the Supreme Court.

During the three months ended 31 December 2016, the NPPA issued show-cause notices relating to allegations that the Company exceeded the notified maximum prices for 11 of its products. The Company has responded to these notices.

On 20 March 2017, the IPA filed an application before the Bombay High Court for the recall of the judgment of the Bombay High Court dated 26 September 2016. This recall application filed by the IPA was dismissed by the Bombay High Court on 4 October 2017. Further, on 13 December 2017, the IPA filed a Special Leave Petition, with the Supreme Court for the recall of the judgement of the Bombay High Court dated 4 October 2017, which was dismissed by Supreme Court on 10 January 2018.

During the three months ended 31 March 2017, the NPPA issued notices to the Company demanding payments relating to the foregoing products for the allegedly overcharged amounts, along with interest. On 13 July 2017, in response to a writ petition which the Company had filed, the Delhi High Court set aside all the demand notices of the NPPA and directed the NPPA to provide a personal hearing to the Company and pass a speaking order. A personal hearing in this regard was held on 21 July 2017. On 27 July 2017, the NPPA passed a speaking order along with the demand notice directing the Company to pay an amount of ₹ 776. On 3 August 2017, the Company filed a writ petition challenging the speaking order and the demand notice.

Upon hearing the matter on 8 August 2017, the Delhi High Court stayed the operation of the demand order and directed the Company to deposit ₹ 100 and furnish a bank guarantee for ₹ 676. Pursuant to the order, the Company deposited ₹ 100 on 13 September 2017 and submitted a bank guarantee of ₹ 676 dated 15 September 2017 to the Registrar General, Delhi High Court. On 22 November 2017, the Delhi High Court directed the Union of India to file a final counter affidavit within six weeks subsequent to which the Company could file a rejoinder. On 10 May 2018, the counter affidavit was filed by the Union of India. The Company subsequently filed a rejoinder and both were taken on record by the Delhi High Court. The matter has been adjourned to 8 August 2018 for hearing.

*(All amounts in Indian Rupees millions, except share data and where otherwise stated)*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.35 CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

Based on its best estimate, the Company has recorded a provision of ₹ 416 under "selling and other expenses" as a potential liability for sale proceeds in excess of the notified selling prices, including the interest thereon, and believes that the likelihood of any further liability that may arise on account of penalties pursuant to this litigation is not probable.

However, if the Company is unsuccessful in such litigation, it will be required to remit the sale proceeds in excess of the notified selling prices to the Government of India with interest and could potentially include penalties, which amounts are not readily ascertainable.

Other product and patent related matters

#### *Nexium United States litigations*

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

The complaints alleged that AstraZeneca and the involved generic manufacturers settled patent litigation related to Nexium® capsules in a manner that violated antitrust laws. The Company consistently maintained that its conduct complied with all applicable laws and that the complaints were without merit. In response to a motion for summary judgement made by the Company, the Court granted the motion in part and denied it in part, finding that the plaintiffs had failed to demonstrate that the Company's settlement of patent litigation with AstraZeneca included any large or unjustified reverse payment, but preserving other claims for trial.

On 20 October 2014, the Company reached a settlement with all plaintiffs who had cases pending in the U.S. District Court for the District of Massachusetts. The settlement with the class plaintiffs was subject to the Court's approval. Under the terms of the settlement, the Company made no payment to the class plaintiffs. Other defendants went to trial and prevailed.

The Court granted preliminary approval of the Company's settlements with the class plaintiffs on 28 January 2015, and granted final approval of such settlements on 29 September 2015.

On 21 November 2016, the First Circuit Court of Appeals affirmed the judgement that had been entered in favour of the defendants who tried the case to a verdict. On 10 January 2017, the First Circuit Court of Appeals denied the motions for reconsideration.

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

The Company believes that the likelihood of any liability that may arise on account of lawsuits of the plaintiffs who opted out of the class action is not probable. Accordingly, no provision has been made in these consolidated financial statements.

#### *Child resistant packaging matter*

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

Simultaneously, the U.S. Department of Justice (the "DOJ") began to investigate a sealed complaint which was filed in the United States District Court for the Eastern District of Pennsylvania under the Federal False Claims Act ("FCA") related to these same issues (the "FCA Complaint"). The Company cooperated with the DOJ in its investigation. The DOJ and all States involved in the investigation declined to intervene in the FCA Complaint. On 10 November 2015, the FCA Complaint was unsealed and the plaintiff whistleblowers, who are two former employees of the Company, proceeded without the DOJ's and applicable States' involvement. The unsealed FCA Complaint relates to the 6 blister pack products originally subject to the investigation and also 38 of the Company's generic prescription products sold in the U.S. in various bottle and cap packaging.

The Company filed its response to the FCA Complaint on 23 February 2016 in the form of a motion to dismiss for failure to state a claim upon which relief can be granted. On 26 March 2017, the Court granted the Company's motion to dismiss, dismissing the FCA Complaint and allowing the plaintiffs one more chance to refile this complaint in an attempt to plead sustainable allegations. On 29 March 2017, the plaintiffs filed their final amended FCA Complaint, which the Company opposed and during the three months ended 31 March 2018, the Company obtained dismissal of the FCA Complaint with prejudice. The plaintiffs filed a petition with the Court requesting that the Court reconsider its decision to dismiss the FCA Complaint with prejudice, and that request was denied.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.35 CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

The parallel investigation by the CPSC under the CPSA and the PPPA was referred by the CPSC to the DOJ's office in Washington, D.C. in April 2016, with the recommendation that the DOJ initiate a civil penalty action against the Company. The CPSC matter referred to the DOJ relates to five of the blister pack products.

On 18 January 2018, the Company and the DOJ entered into a settlement of the action and agreed to a consent decree providing for a civil penalty of US\$ 5 million (₹ 319) and injunctive relief. The settlement was without adjudication of any issue of fact or law, and the Company has not admitted any violations of law pursuant to this settlement.

#### *Namenda United States Litigations*

In August 2015, Sergeants Benevolent Assoc. Health & Welfare Fund ("Sergeants") filed suit against the Company in the United States District Court for the Southern District of New York. Sergeants alleged that certain parties, including the Company, violated federal antitrust laws as a consequence of having settled patent litigation related to the Alzheimer's drug Namenda® (memantine) tablets during a period from about 2009 until 2010. Sergeants seeks to represent a class of "end-payor" purchasers of Namenda® tablets (i.e., insurers, other third-party payors and consumers).

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

All defendants, including the Company, moved to dismiss the claims. On 13 September 2016, the Court denied these motions. However, the Sergeants case is stayed pending resolution of similar claims in another case in which the Company is not a party (*JM Smith Corp. v. Actavis PLC*). The parties in the JM Smith case have served the Company with subpoenas, in response to which the Company produced the specific documents subpoenaed and provided testimony in a deposition.

Four other class action complaints, each containing similar allegations to the Sergeants complaint, have also been filed in the U.S. District Court for the Southern District of New York. However, two of those complaints were voluntarily dismissed, and the other two do not name the Company as a defendant.

In addition, the State of New York filed an antitrust case in the U.S. District Court for the Southern District of New York. The case brought by the State of New York contained some (but not all) of the allegations set forth in the class action complaints, but the Company was not named as a party. The case brought by the State of New York was dismissed by stipulation on 30 November 2015.

The Company believes that the likelihood of any liability that may arise on account of alleged violation of federal antitrust laws is not probable. Accordingly, no provision has been made in these consolidated financial statements.

#### *Class Action and Other Civil Litigation on Pricing/Reimbursement Matters*

On 30 December 2015 and on 4 February 2016, respectively, a class action complaint (the "First Pricing Complaint") and another complaint (not a class action) (the "Second Pricing Complaint") were filed against the Company and eighteen other pharmaceutical defendants in State Court in the Commonwealth of Pennsylvania. In these actions, the class action plaintiffs allege that the Company and other defendants, individually or in some cases in concert with one another, have engaged in pricing and price reporting practices in violation of various Pennsylvania state laws. More specifically, the plaintiffs allege that: (1) the Company provided false and misleading pricing information to third party drug compendia companies for the Company's generic drugs, and such information was relied upon by private third party payers that reimbursed for drugs sold by the Company in the United States, and (2) the Company acted in concert with certain other defendants to unfairly raise the prices of generic divalproex sodium ER (bottle of 80, 500 mg tablets ER 24H) and generic pravastatin sodium (bottle of 500, 10 mg tablets).

The First Pricing Complaint was removed to the U.S. District Court for the Eastern District of Pennsylvania (the "E.D.P.A. Federal Court") and, pending the outcome of the First Pricing Complaint, the Second Pricing Complaint was stayed. On 25 September 2017, the E.D.P.A. Federal Court dismissed all the claims of the plaintiffs in the First Pricing Complaint and denied leave to amend such complaint as futile. Subsequent to this decision, the plaintiffs right to appeal the dismissal of the First Pricing Complaint expired.

Further, on 17 November 2016, certain class action complaints were filed against the Company and a number of other pharmaceutical companies as defendants in the E.D.P.A Federal Court. Subsequently, these complaints were consolidated into one amended complaint as part of a multi-district, multi-product litigation pending with the E.D.P.A. Federal Court. These complaints allege that the Company and the other named defendants have engaged in a conspiracy to fix prices and to allocate bids and customers in the sale of pravastatin sodium tablets and divalproex sodium extended-release tablets in the United States. In March 2017, plaintiffs agreed by stipulation to dismiss Dr. Reddy's Laboratories Inc. and Dr. Reddy's Laboratories Limited from the actions related to pravastatin sodium tablets without prejudice. The Company denies any wrongdoing and intends to vigorously defend against these allegations.

The Company believes that the likelihood of any liability that may arise on account of any of these complaints is not probable. Accordingly, no provision has been made in these consolidated financial statements.

*(All amounts in Indian Rupees millions, except share data and where otherwise stated)*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.35 CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

#### (ii) Civil litigation with Mezzion

On 13 January 2017, Mezzion Pharma Co. Ltd. and Mezzion International LLC (collectively, "Mezzion") filed a complaint in the New Jersey Superior Court against the Company and its wholly owned subsidiary in the United States. The complaint pertains to the production and supply of the active pharmaceutical ingredient ("API") for udenafil (a patented compound) and an udenafil finished dosage product during a period from calendar years 2007 to 2015. Mezzion alleges that the Company failed to comply with the U.S. FDA's current Good Manufacturing Practices ("cGMP") at the time of manufacture of the API and finished dosage forms of udenafil and, consequently, that this resulted in a delay in the filing of a NDA for the product by Mezzion. In this regard, the Company filed a motion to dismiss Mezzion's complaint on the technical grounds that the Court lacks jurisdiction over the Company. In January 2018, the Court denied the Company's motion to dismiss the complaint on the jurisdictional matter. Company's interlocutory appeal of the said denial, was also denied.

The Company denies any wrongdoing or liability in this regard, and intends to vigorously defend against the claims asserted in Mezzion's complaint. Any liability that may arise on account of this complaint is unascertainable. Accordingly, no provision was made in the consolidated financial statements of the Company.

#### (iii) Shareholder Class Action Litigation

On 25 August 2017, a securities class action lawsuit was filed against the Company, its Chief Executive Officer, and its Chief Financial Officer in the United States District Court for the District of New Jersey. The Company's Co-Chairman, its Chief Operating Officer, and Dr. Reddy's Laboratories, Inc., were also subsequently named as defendants in the case. The operative complaint alleges that the Company made false or misleading statements or omissions in its public filings, in violation of U.S. federal securities laws and that the Company's share price dropped and its investors were affected. On 9 May 2018, the Company and other defendants filed a motion to dismiss the complaint in the United States District Court for the District of New Jersey.

The Company believes that the asserted claims are without merit and intends to vigorously defend itself against the allegations. Any liability that may arise on account of this complaint is unascertainable. Accordingly, no provision was made in the consolidated financial statements of the Company.

#### (iv) Environmental matters

##### Land pollution

The Indian Council for Environmental Legal Action filed a writ in 1989 under Article 32 of the Constitution of India against the Union of India and others in the Supreme Court of India for the safety of people living in the Patancheru and Bollaram areas of Medak district of the then existing undivided state of Andhra Pradesh. The Company has been named in the list of polluting industries. In 1996, the Andhra Pradesh District Judge proposed that the polluting industries compensate farmers in the Patancheru, Bollaram and Jeedimetla areas for discharging effluents which damaged the farmers' agricultural land. The compensation was fixed at ₹ 0.0013 per acre for dry land and ₹ 0.0017 per acre for wet land. Accordingly, the Company has paid a total compensation of ₹ 3. The Andhra Pradesh High Court disposed of the writ petition on 12 February 2013 and transferred the case to the National Green Tribunal ("NGT"), Chennai, India. The interim orders passed in the writ petitions will continue until the matter is decided by the NGT. The NGT has, through its order dated 30 October 2015, constituted a Fact Finding Committee. The NGT has also permitted the alleged polluting industries to appoint a person on their behalf in the Fact Finding Committee. However, the Company along with the alleged polluting industries has challenged the constitution and composition of the Fact Finding Committee. The NGT has directed that until all the applications challenging the constitution and composition of the Fact Finding Committee are disposed of, the Fact Finding Committee shall not commence its operation.

The NGT, Chennai in a judgement dated 24 October 2017, disposed of the matter. The Bulk Drug Manufacturers Association of India ("BDMAI"), in which the Company is a member, subsequently filed a review petition against the judgement on various aspects.

The NGT, Delhi, in a judgement dated 16 November 2017, in another case in which the Company is not a party, stated that the moratorium imposed in the Patancheru and Bollaram areas shall continue until the Ministry of Environment, Forest and Climate Change passes an order keeping in view the needs of the environment and public health.

The Company believes that any additional liability that might arise in this regard is not material to the consolidated financial statements. Accordingly, no provision relating to these claims has been made in the consolidated financial statements as of 31 March 2018.

##### Water pollution and air pollution

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.35 CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

The Company appealed the APP Control Board orders to the Andhra Pradesh Pollution Appellate Board (the "APP Appellate Board"). The APP Appellate Board, on the basis of a report of a fact-finding advisory committee, recommended to the Andhra Pradesh Government to allow expansion of units fully equipped with Zero-Liquid Discharge ("ZLD") facilities and otherwise found no fault with the Company (on certain conditions).

The APP Appellate Board's decision was challenged by one of the petitioners in the National Green Tribunal and the matter is currently pending before it.

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

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

#### (v) Indirect taxes related matters

##### Distribution of input service tax credits

The Central Excise Authorities have issued various demand notices to the Company objecting to the Company's methodology of distributing input service tax credits claimed for one of the Company's facilities. The below table shows the details of each such demand notice, the amount demanded and the current status of the Company's responsive actions.

PERIOD COVERED UNDER THE NOTICE	AMOUNT DEMANDED	STATUS
March 2008 to September 2009	₹ 102 plus penalties of ₹ 102 and interest	The Company has filed an appeal before the CESTAT.
October 2009 to March 2011	₹ 125 plus penalties of ₹ 100 and interest	The Company has filed an appeal before the CESTAT.
April 2011 to March 2012	₹ 51 plus interest and penalties	The Company has filed an appeal before the CESTAT.
April 2012 to March 2013	₹ 54 plus interest and penalties	The Company has filed an appeal before the CESTAT.
April 2013 to March 2014	₹ 69 plus interest and penalties	The Company has filed an appeal before the CESTAT.
April 2014 to March 2015	₹ 108 plus interest and penalties	The Company has filed an appeal before the CESTAT.
April 2015 to March 2016	₹ 157 plus interest and penalties	The Company is in the process of responding to the notice.

The Company believes that the likelihood of any liability that may arise on account of the allegedly inappropriate distribution of input service tax credits is not probable. Accordingly, no provision relating to these claims has been made in these consolidated financial statements as of 31 March 2018.

##### Value Added Tax ("VAT") matter

The Company has received various demand notices from the Government of Telangana's Commercial Taxes Department objecting to the Company's methodology of calculation of VAT input credit. The below table shows the details of each of such demand notice, the amount demanded and the current status of the Company's responsive actions.

PERIOD COVERED UNDER THE NOTICE	AMOUNT DEMANDED	STATUS
April 2006 to March 2009	₹ 66 plus 10% penalty	The Company has filed an appeal before the Sales Tax Appellate Tribunal.
April 2009 to March 2011	₹ 59 plus 10% penalty	The Company has filed an appeal before the Sales Tax Appellate Tribunal.
April 2011 to March 2013	₹ 16 plus 10% penalty	The Appellate Deputy Commissioner issued an order partially in favour of the Company.

The Company has recorded a provision of ₹ 27 as of 31 March 2018, and believes that the likelihood of any further liability that may arise on account of the allegedly inappropriate claims to VAT credits is not probable.

##### Others

Additionally, the Company is in receipt of various demand notices from the Indian Sales and Service Tax authorities. The disputed amount is ₹ 278. The Company has responded to such demand notices and believes that the chances of any liability arising from such notices are less than probable. Accordingly, no provision is made in these consolidated financial statements as of 31 March 2018.

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.35 CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

#### (vi) Fuel Surcharge Adjustments

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

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

During the three months ended 30 June 2016, the Supreme Court of India dismissed the Special Leave Petition filed by the Company in this regard for the period from 1 April 2012 to 31 March 2013. As a result, for the quarter ended 30 June 2016, the Company recognised an expenditure of ₹ 55 (by de-recognising the payments under protest) representing the FSA charges for the period from 1 April 2012 to 31 March 2013.

#### (vii) Direct taxes related matters

The Company is contesting various disallowances by the Indian Income Tax authorities. The associated tax impact is ₹ 1,727. The Company believes that the chances of an unfavourable outcome in each of such disallowances are less than probable and, accordingly, no provision is made in these consolidated financial statements as of 31 March 2018.

During the years ended 31 March 2014, 31 March 2015 and 31 March 2016, Industrias Químicas Falcon de Mexico, S.A. de CV, a wholly-owned subsidiary of the Company in Mexico, received a notice from Mexico's Tax Administration Service, Servicio de Administracion Tributaria ("SAT"), with respect to disallowance on account of transfer pricing adjustments pertaining to the calendar years ended 31 December 2006, 31 December 2007 and 31 December 2008. The associated tax impact is ₹ 703 (MXN 196.9 million). The Company filed administrative appeals with the SAT by challenging these disallowances and, during February and March 2017, the Company received orders of the SAT confirming these disallowances by dismissing its administrative appeals. The Company disagrees with the SAT's disallowances and filed an appeal with the Tribunal Federal de Justicia Administrativa (Federal Tax and Administrative Court of Mexico) in March and April 2017.

The Company believes that possibility of any liability that may arise on account of this litigation is not probable. Accordingly, no provision has been made in these consolidated financial statements as of 31 March 2018.

#### (viii) Others

Additionally, the Company is involved in other disputes, lawsuits, claims, governmental and/or regulatory inspections, inquiries, investigations and proceedings, including patent and commercial matters that arise from time to time in the ordinary course of business. Except as discussed above, the Company does not believe that there are any such contingent liabilities that are expected to have any material adverse effect on its consolidated financial statements.

#### B. Commitments:

PARTICULARS	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Estimated amounts of contracts remaining to be executed on capital account and not provided for (net of advances)	3,788	5,256

### 2.36 COLLABORATION AGREEMENT WITH CURIS, INC.

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.36 COLLABORATION AGREEMENT WITH CURIS, INC. (CONTINUED)

As partial consideration for the collaboration, pursuant to a Stock Purchase Agreement dated 18 January 2015, Curis issued to Aurigene 17,120,131 shares of its common stock, representing 19.9% of its outstanding common stock immediately prior to the transaction (approximately 16.6% of its outstanding common stock immediately after the transaction). Such shares were initially subject to a lock-up agreement. However, as of 31 March 2017, lock-up restrictions were released on all of the aforementioned 17,120,131 shares. In connection with the issuance of such shares, Curis and Aurigene entered into a Registration Rights Agreement dated 18 January 2015 which provides for certain registration rights with respect to resale of the shares. The common stock of Curis is listed for quotation on the NASDAQ Global Market.

The fair value of the shares of Curis common stock on the date of the Stock Purchase Agreement was ₹ 1,452 (US\$ 23.5 million).

Revenues under the Collaboration Agreement consist of upfront consideration (including the shares of Curis common stock) and the development and commercial milestone payments described below, which are deferred and recognised as revenue over the period for which Aurigene has continuing performance obligations.

Under the Collaboration Agreement, Aurigene is entitled to development and commercial milestone payments as follows:

- for the first two programs: up to US\$ 52.5 million per program, including US\$ 42.5 million for approval and commercial milestones, plus pre-specified approval milestone payments for additional indications, if any;
- for the third and fourth programs: up to US\$ 50 million per program, including US\$ 42.5 million for approval and commercial milestones, plus pre-specified approval milestone payments for additional indications, if any; and
- for any program thereafter: up to US\$ 140.5 million per program, including US\$ 87.5 million for approval and commercial milestones, plus pre-specified approval milestone payments for additional indications, if any.

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

On 7 September 2016, the Collaboration Agreement was amended to provide for the issuance to Aurigene of 10,208,333 additional shares of Curis common stock in lieu of receiving up to US\$ 24.5 million of milestone and other payments from Curis that could have become due under the Collaboration Agreement. These shares of Curis common stock are recorded at US\$ 1.84 per share, which is equal to the market price of such shares of common stock on the date of issuance, amounting to an aggregate market value of ₹ 1,247 (US\$ 18.8 million).

These additional shares are also subject to a lock-up agreement, which is similar to the lock-up for the original Curis shares the Company received. However, this lock-up remains effective until 7 September 2018, with shares being released from such lock-up in 25% increments on each of 7 March 2017, 7 September 2017, 7 March 2018 and 7 September 2018, subject to acceleration of release of all the shares in connection with a change of control of Curis. As of 31 March 2018, lock-up restrictions were released on an aggregate of 7,656,250 of such additional shares of Curis common stock, representing 75% of the shares which Aurigene received from Curis in 2016.

The Company has evaluated the transaction under Ind AS 28, *Investments in Associates and Joint Ventures*, and believes that the Company does not have any significant influence with respect to Curis. Accordingly, all of the shares of Curis common stock are classified as instruments at fair value through OCI. The fair value of the investments as on 31 March 2018 is ₹ 1,164.

This arrangement is accounted for as a joint operation under Ind AS 111.

### 2.37 AGREEMENT WITH MERCK SERONO

On 6 June 2012, the Company and the biosimilars division of Merck KGaA, Darmstadt, Germany, formerly known as Merck Serono (hereinafter, "Merck KGaA"), entered into a collaboration agreement to co-develop a portfolio of biosimilar compounds in oncology, primarily focused on monoclonal antibodies. The arrangement covers co-development, manufacturing and commercialisation of the compounds around the globe, with some specific country exceptions. During the year ended 31 March 2016, the collaboration agreement was amended to rearrange and realign the development of compounds, territory rights and royalty payments. Both parties will undertake commercialisation based on their respective regional rights as defined in the agreement. The Company will lead and support early product development towards or including Phase I development. Merck KGaA will carry out manufacturing of the compounds and will lead further development for its territories. In its exclusive and co-exclusive territories, the Company will carry out its own development, wherever applicable, for commercialisation. As per the original collaboration agreement, the Company will continue to receive royalty payments upon commercialisation by Merck KGaA in its territories.

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.37 AGREEMENT WITH MERCK SERONO (CONTINUED)

During the three months ended 31 December 2015, the Company received from Merck KGaA certain amounts relating to its share of development costs and other amounts linked to the achievement of milestones for the development of compounds under the collaboration agreement, as amended.

Furthermore, during the three months ended 31 December 2016, the Company received from Merck KGaA payments of US\$ 1 million towards achievement of a milestone for the development of a compound under the collaboration agreement.

On 1 September 2017, Fresenius Kabi acquired the biosimilars business of Merck KgaA.. Since then, the Company's collaboration has continued as planned, with Fresenius Kabi.

### 2.38 ASSET PURCHASE AGREEMENT WITH TEVA PHARMACEUTICAL INDUSTRIES LIMITED

On 10 June 2016, the Company entered into a definitive purchase agreement with Teva and an affiliate of Allergan plc ("Allergan") to acquire eight ANDAs in the United States for US\$ 350 million in cash at closing. The acquired products were divested by Teva as a precondition to the closing of its acquisition of Allergan's generics business. The acquisition of these ANDAs was also contingent on the closing of the Teva/Allergan generics purchase transaction and approval by the U.S. Federal Trade Commission.

The acquisition was consummated on 3 August 2016 upon the completion of all closing conditions, and the Company paid US\$ 350 million as the consideration for the acquired ANDAs.

Tabulated below are the details of products acquired and the respective purchase prices in US\$ million along with the corresponding amount in ₹ as of the payment date:

PARTICULARS OF THE ANDA	PURCHASE PRICE (US\$ MILLION)	PURCHASE PRICE (AMOUNT IN ₹)
Ethinyl estradiol/Ethonogestrel Vaginal Ring (a generic equivalent to NuvaRing®)	185	12,351
Buprenorphine HCl/Naloxone HCl Sublingual Film (a generic equivalent Suboxone® sublingual film)	70	4,673
Ramelteon Tablets (a generic equivalent to Rozerem®)	34	2,270
Others	61	4,072
<b>Total</b>	<b>350</b>	<b>23,366</b>

The Company recorded the aforesaid acquisition of these ANDAs as "intangible assets under development". The aforesaid acquisition forms part of the Company's Global Generics segment. During the three months ended 30 June 2017, the Company launched the product for one of the eight ANDAs acquired (ezetimibe and simvastatin tablets). The carrying cost of the ANDA as at 31 March 2018 was ₹ 697 and the useful life is eight years. The carrying value of the other seven ANDAs as at 31 March 2018 was ₹ 22,573. As these ANDAs are not available for use yet, they are not subject to amortisation.

### 2.39 SIGNIFICANT ASSET PURCHASE AGREEMENTS

Tabulated below are certain significant asset purchase agreements entered into by the Company during its fiscal years ended 31 March 2017 and 2018:

MONTH AND YEAR	COUNTERPARTY	BRIEF PARTICULARS OF THE ASSET/AGREEMENT	USEFUL LIFE	CARRYING VALUE AS ON 31 MARCH 2018
March 2016 and September 2017	Eisai Company Limited	Acquisition of commercialisation rights for an anti-cancer biologic agent (E7777) from Eisai Company Limited. The consideration was an upfront amount plus certain milestone-based payments.	Not available for use yet	₹ 1,065
May 2016	Ducere Pharma LLC	Purchase of certain pharmaceutical brands to strengthen the Company's presence in the dermatology, cough-and-cold and pain therapeutic areas forming part of the Company's OTC business in the United States, all for an aggregate consideration of ₹ 1,148.	15 years	₹ 980
November 2016	Gland Pharma Limited	Acquisition of the rights to in-license, market and distribute eight injectable ANDAs, all for an aggregate consideration of US\$ 5.9 million.	Not available for use yet	₹ 231

In addition, in June 2016 the Company entered into an asset purchase agreement with Teva (Refer note 2.38 of these consolidated financial statements for further details).



(All amounts in Indian Rupees millions, except share data and where otherwise stated)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.40 SIGNIFICANT OUT-LICENSING AGREEMENTS

MONTH AND YEAR	COUNTERPARTY	PRODUCT	BRIEF PARTICULARS OF THE AGREEMENT
July 2017	CHD Biosciences Inc. ("CHD")	DFA-02	As a consideration for out-licensing the Phase III clinical trial candidate, DFA-02, the Company is entitled to receive equity shares in CHD valued at US\$ 30 million upon an initial public offering of CHD or, if no initial public offering occurs within 18 months of execution of the agreement, a cash payment of US\$ 30 million. The Company will also receive additional milestone payments of US\$ 40 million upon U.S. FDA approval. In addition, the Company is entitled to royalties on sales and certain other commercial milestone payments with respect to the product. At the time of execution, as the arrangement did not meet all of the revenue recognition criteria under Ind AS 18, no revenue has been recognised for the transaction.
September 2017	Encore Dermatology Inc.	DFD-06	The consideration for this arrangement consists of up to US\$ 20 million in upfront payments and amounts contingent upon satisfaction of certain approval milestones, plus up to US\$ 12.5 million of amounts contingent upon satisfaction of certain patent and commercial milestones. In addition, the Company is entitled to royalties on net sales. During the three months ended 31 December 2017, all of the performance obligations relating to the approval milestones were met, and consequently, revenue of US\$ 20 million was recognised.

### 2.41 RECEIPT OF WARNING LETTER FROM THE U.S. FDA

The Company received a warning letter dated 5 November 2015 from the U.S. FDA relating to current Good Manufacturing Practices ("cGMPs") deviations at its active pharmaceutical ingredient ("API") manufacturing facilities at Srikakulam, Andhra Pradesh and Miryalaguda, Telangana, as well as violations at its oncology formulation manufacturing facility at Duvvada, Visakhapatnam, Andhra Pradesh. The contents of the warning letter emanated from Form 483 observations that followed inspections of these sites by the U.S. FDA in November 2014, January 2015 and February-March 2015.

The warning letter does not restrict production or shipment of the Company's products from these facilities. However, unless and until the Company is able to correct outstanding issues to the U.S. FDA's satisfaction, the U.S. FDA may withhold approval of new products and new drug applications of the Company, refuse admission of products manufactured at the facilities noted in the warning letter into the United States, and/or take additional regulatory or legal action against the Company. Any such further action could have a material and negative impact on the Company's ongoing business and operations. During the years ended 31 March 2016, 31 March 2017 and 31 March 2018, the U.S. FDA withheld approval of new products from these facilities pending resolution of the issues identified in the warning letter. To minimise the business impact, the Company transferred certain key products to alternate manufacturing facilities.

Subsequent to the issuance of the warning letter, the Company promptly instituted corrective actions and preventive actions and submitted a comprehensive response to the warning letter to the U.S. FDA, followed by periodic written updates and in-person meetings with the U.S. FDA. The U.S. FDA completed the re-inspection of the aforementioned manufacturing facilities in the months of February, March and April 2017. During the re-inspections, the U.S. FDA issued three observations with respect to the API manufacturing facility at Miryalaguda, two observations with respect to the API manufacturing facility at Srikakulam and thirteen observations with respect to the Company's oncology formulation manufacturing facility at Duvvada. The Company has responded to these observations identified by the U.S. FDA, and believes that it can resolve them in a timely manner.

In June 2017, the U.S. FDA issued an Establishment Inspection Report ("EIR") which indicated that the inspection of the Company's API manufacturing facility at Miryalaguda is successfully closed. With regard to the Company's oncology manufacturing facility at Duvvada and its API manufacturing facility at Srikakulam, the Company received EIRs from the U.S. FDA in November 2017 and February 2018, respectively, which indicated that the inspection status of these facilities remains unchanged.

#### Inspection of other facilities:

In May and June 2017, inspection of the Company's Formulations Srikakulam Plant (SEZ) Unit II and I, India, was completed by the U.S. FDA with zero and one observations, respectively, and the U.S. FDA issued EIRs in September 2017 for both Units II and I, indicating the closure of the audit for these facilities.

The inspection of the Company's Custom Pharmaceutical Services facility in Hyderabad, India was completed by the U.S. FDA on 21 September 2017 with zero observations, and the U.S. FDA issued an EIR in December 2017 indicating the closure of audit for this facility.

In April 2017, inspection of the Company's formulations manufacturing facility at Bachupally, Hyderabad was completed by the U.S. FDA and the Company was issued a Form 483 with 11 observations. In December 2017, the U.S. FDA issued an EIR which indicates the closure of the audit for this facility.

In July 2017, inspection of the Company's API facility in Cuernavaca, Mexico was completed by the U.S. FDA with zero observations, and the U.S. FDA issued an EIR in April 2018 indicating the closure of the audit for this facility.

*(All amounts in Indian Rupees millions, except share data and where otherwise stated)*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.41 RECEIPT OF WARNING LETTER FROM THE U.S. FDA (CONTINUED)

The inspection of the Company's API facility in Mirfield, United Kingdom was completed by the U.S. FDA on 15 September 2017, and the Company was issued a Form 483 with three observations. The Company responded to the observations identified by the U.S. FDA, and the U.S. FDA issued an EIR on 24 April 2018, which indicates the closure of the audit for this facility.

In March 2018, inspection of two of the Company's API manufacturing facilities namely, the API Hyderabad Plant 1 and the API Hyderabad Plant 3, was completed by the U.S. FDA with four and five observations, respectively. The observations at API Hyderabad Plant 3 were related to procedures and facility maintenance. The Company has responded to the observations relating to both these facilities and believes that it can address all these observations comprehensively in a timely manner.

### 2.42 INSPECTION BY THE REGULATORY AUTHORITY OF BAVARIA, GERMANY

In August 2017, the Company's German subsidiary betapharm Arzneimittel GmbH received a letter from a regulatory authority of Bavaria, Germany (the Regierung von Oberbayern, which is the Central Authority for Supervision of Medicinal Products in Bavaria of the Upper Bavarian government) (the "Regulator"), that the GMP compliance certificate for the Company's formulations manufacturing facility at Bachupally, Hyderabad was not renewed as the result of GMP compliance deviations identified in an inspection. Consequently, this manufacturing facility was not permitted to export products to the European Union (the "EU") until satisfactory resolution of the issues identified in the inspection and renewal of the facility's GMP compliance certificate. The manufacturing facility was re-inspected in January 2018 and the status of non-compliance was withdrawn. The facility is now permitted to dispatch approved products to the EU.

Furthermore, on 7 September 2017, the Regulator concluded an inspection of the Company's formulations manufacturing facility at Duvvada, Visakhapatnam, with zero critical and six major observations. Products manufactured at the facility are not currently exported to the EU. The Company submitted a Corrective and Preventive Action Plan ("CAPA") to the Regulator in this regard which was accepted by the Regulator. Consequently, the Regulator permitted the Company to start production from this facility for the EU market. The German Regulator intends to re-inspect this facility by the end of calendar year 2018.

### 2.43 CHANGE IN THE FUNCTIONAL CURRENCY OF A FOREIGN OPERATION

Until 31 July 2016, the functional currency of Dr. Reddy's Laboratories, SA, one of the Company's subsidiaries in Switzerland (the "Swiss Subsidiary"), was determined to be the Indian rupee. During the three months ended 30 September 2016, the Swiss Subsidiary borrowed US\$ 350 million from certain institutional lenders to acquire eight ANDAs in the United States (Refer note 2.38). The Company believes that the aforesaid transactions had significant impact on the primary economic environment of the Swiss Subsidiary and, accordingly, the Swiss Subsidiary's operating, investing and financing activities will have a greater reliance on the United States dollar.

Accordingly, effective 1 August 2016, the functional currency of the Swiss Subsidiary was changed to the United States dollar. The change in functional currency of the Swiss subsidiary was applied prospectively from date of change in accordance with Ind AS 21, *The Effect of Changes in Foreign Exchange Rate*.

### 2.44 BUY-BACK OF EQUITY SHARES

The Board of Directors of the Company, in their meeting held on 17 February 2016, approved a proposal to buy back equity shares of the Company, subject to approval by the Company's shareholders, for an aggregate amount not exceeding ₹ 15,694 and at a price not exceeding ₹ 3,500 per equity share. The plan involved the purchase of such shares from shareholders of the Company (including persons who become shareholders by cancelling American Depository Shares and receiving underlying equity shares, and excluding the promoters and promoter group of the Company) under the open market route in accordance with the provisions contained in the Securities and Exchange Board of India (Buy Back of Securities) Regulations, 1998 and the Companies Act, 2013 and rules made thereunder. The shares bought back under this plan were required to be extinguished in accordance with the provisions of the Securities and Exchange Board of India (Buy Back of Securities) Regulations, 1998 and the Companies Act, 2013 and rules made thereunder.

The Company's shareholders approved the buyback plan on 1 April 2016, and implementation of the buyback plan commenced on 18 April 2016 and ended on 28 June 2016.

Under this plan, the Company bought back and extinguished 5,077,504 equity shares for an aggregate purchase price of ₹ 15,694. The aggregate face value of the equity shares bought back was ₹ 25.

### 2.45 CAPITAL MANAGEMENT

For the purposes of the Company's capital management, capital includes issued capital and all other equity reserves. The primary objective of the Company's capital management is to maximise shareholder value. The Company manages its capital structure and makes adjustments in the light of changes in economic environment and the requirements of the financial covenants. The Company monitors capital using gearing ratio, which is total debt divided by total capital plus debt.

The capital gearing ratio as on 31 March 2018 and 31 March 2017 was 29 % and 29%, respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2.46 SUBSEQUENT EVENTS

There are no significant events that occurred after the balance sheet date.

## 2.47 RECENT ACCOUNTING PRONOUNCEMENTS

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

### Ind AS 115, *Revenue from Contracts with Customers*

In March 2018, the Ministry of Corporate Affairs ("MCA") has notified Ind AS 115, *Revenue from Contracts with Customers*, which is effective for accounting periods beginning on or after 1 April 2018. This comprehensive new standard will supersede existing revenue recognition guidance, and requires an entity to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

Ind AS 115 is effective for annual reporting periods beginning on or after 1 April 2018.

The Company intends to adopt Ind AS 115 effective 1 April 2018, using the modified retrospective method. The adoption of Ind AS 115 is not expected to have a significant impact on the Company's recognition of revenues from product sales, service income and license fee.

### Other amendments

On 28 March 2018, the MCA, issued certain amendments to Ind AS. The amendments relate to the following standards:

- Ind AS 40, *Investment Property*
- Ind AS 21, *The Effects of Changes in Foreign Exchange Rates*
- Ind AS 12, *Income Taxes*
- Ind AS 28, *Investments in Associates and Joint Ventures*
- Ind AS 112, *Disclosure of Interests in Other Entities*

The amendments are effective 1 April 2018. The Company believes that the aforementioned amendments will not materially impact the financial position, performance or the cash flows of the Company.

As per our report of even date attached

for **S.R. Batliboi & Associates LLP**

*Chartered Accountants*

ICAI Firm registration number: 101049W/E300004

per **Kaustav Ghose**

*Partner*

Membership No.: 57828

Place : Hyderabad

Date : 22 May 2018

for and on behalf of the Board of Directors of **Dr. Reddy's Laboratories Limited**

**K Satish Reddy**

**G V Prasad**

**Saumen Chakraborty**

**Sandeep Poddar**

Chairman

Co-Chairman & Chief Executive Officer

Chief Financial Officer

Company Secretary

**IFRS  
CONSOLIDATED  
FINANCIAL  
STATEMENTS**

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## EXTRACT OF IFRS CONSOLIDATED FINANCIAL STATEMENTS

We have adopted the IFRS as issued by the International Accounting Standards Board (IASB) for preparing our financial statements for the purpose of filings with the U.S. SEC. We have furnished all our interim financial reports of fiscal 2018 with the U.S. SEC which were prepared under the 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](http://www.drreddys.com).

The extract of the consolidated financial statements prepared under the IFRS has been provided here under.

### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

PARTICULARS	AS OF 31 MARCH 2018	AS OF 31 MARCH 2017
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	2,638	3,866
Other investments	18,330	14,270
Trade and other receivables	40,617	38,065
Inventories	29,089	28,529
Derivative financial instruments	103	262
Current tax assets	4,567	3,413
Other current assets	14,301	11,970
<b>Total current assets</b>	<b>109,645</b>	<b>100,375</b>
<b>Non-current assets</b>		
Property, plant and equipment	57,869	57,160
Goodwill	3,945	3,752
Other intangible assets	44,665	44,925
Trade and other receivables	169	206
Investment in equity accounted investees	2,104	1,603
Other investments	2,549	5,237
Deferred tax assets	3,628	5,580
Other non-current assets	1,030	983
<b>Total non-current assets</b>	<b>115,959</b>	<b>119,446</b>
<b>Total assets</b>	<b>225,604</b>	<b>219,821</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Trade and other payables	16,052	13,417
Short-term borrowings	25,466	43,539
Long-term borrowings, current portion	63	110
Provisions	3,732	4,509
Current tax liabilities	1,530	1,483
Derivative financial instruments	85	10
Bank overdraft	96	87
Other current liabilities	22,668	21,845
<b>Total current liabilities</b>	<b>69,692</b>	<b>85,000</b>
<b>Non-current liabilities</b>		
Long-term borrowings, excluding current portion	25,089	5,449
Deferred tax liabilities	730	1,204
Provisions	53	47
Other non-current liabilities	3,580	4,077
<b>Total non-current liabilities</b>	<b>29,452</b>	<b>10,777</b>
<b>Total liabilities</b>	<b>99,144</b>	<b>95,777</b>
<b>Equity</b>		
Share capital	830	829
Share premium	7,790	7,359
Share based payment reserve	1,021	998
Capital redemption reserve	173	173
Retained earnings	113,865	108,051
Other components of equity	2,781	6,634
<b>Total equity</b>	<b>126,460</b>	<b>124,044</b>
<b>Total liabilities and equity</b>	<b>225,604</b>	<b>219,821</b>

(All amounts in Indian Rupees millions, except share and per share data)

**CONSOLIDATED INCOME STATEMENTS**

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017	FOR THE YEAR ENDED 31 MARCH 2016
<b>Revenues</b>	<b>142,028</b>	<b>140,809</b>	<b>154,708</b>
Cost of revenues	65,724	62,453	62,427
<b>Gross profit</b>	<b>76,304</b>	<b>78,356</b>	<b>92,281</b>
Selling, general and administrative expenses	46,910	46,372	45,702
Research and development expenses	18,265	19,551	17,834
Other (income)/expense, net	(788)	(1,065)	(874)
<b>Total operating expenses</b>	<b>64,387</b>	<b>64,858</b>	<b>62,662</b>
<b>Results from operating activities</b>	<b>11,917</b>	<b>13,498</b>	<b>29,619</b>
Finance income	2,897	1,587	2,251
Finance expense	(817)	(781)	(4,959)
Finance (expense)/ income, net	2,080	806	(2,708)
Share of profit of equity accounted investees, net of tax	344	349	229
<b>Profit before tax</b>	<b>14,341</b>	<b>14,653</b>	<b>27,140</b>
Tax expense	4,535	2,614	7,127
<b>Profit for the year</b>	<b>9,806</b>	<b>12,039</b>	<b>20,013</b>
<i>Attributable to:</i>			
Equity holders of the Company	9,806	12,039	20,013
Non-controlling interest	-	-	-
<b>Profit for the year</b>	<b>9,806</b>	<b>12,039</b>	<b>20,013</b>
Earnings per share:			
Basic earnings per share of ₹ 5/- each	59.13	72.24	117.34
Diluted earnings per share of ₹ 5/- each	59.00	72.09	116.98
Weighted average number of equity shares used in computing earnings per equity share:			
Basic	165,845,408	166,648,943	170,547,643
Diluted	166,185,552	166,997,675	171,072,780

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

PARTICULARS	FOR THE YEAR ENDED 31 MARCH 2018	FOR THE YEAR ENDED 31 MARCH 2017	FOR THE YEAR ENDED 31 MARCH 2016
<b>Profit for the year</b>	<b>9,806</b>	<b>12,039</b>	<b>20,013</b>
<b>Other comprehensive income/(loss)</b>			
<i>Items that will not be reclassified to the consolidated income statement:</i>			
Actuarial gains/(losses) on post-employment benefit obligations	39	(39)	(185)
Tax on items that will not be reclassified to the consolidated income statement	(12)	14	64
<b>Total of items that will not be reclassified to the consolidated income statement</b>	<b>27</b>	<b>(25)</b>	<b>(121)</b>
<i>Items that may be reclassified subsequently to the consolidated income statement:</i>			
Changes in fair value of available for sale financial instruments	(5,160)	2,209	(19)
Foreign currency translation adjustments	(32)	(339)	31
Effective portion of changes in fair value of cash flow hedges, net	(82)	968	966
Tax on items that may be reclassified subsequently to the consolidated income statement	1,394	(411)	(173)
<b>Total of items that may be reclassified subsequently to the consolidated income statement</b>	<b>(3,880)</b>	<b>2,427</b>	<b>805</b>
<b>Other comprehensive income/(loss) for the year, net of tax</b>	<b>(3,853)</b>	<b>2,402</b>	<b>684</b>
<b>Total comprehensive income for the year</b>	<b>5,953</b>	<b>14,441</b>	<b>20,697</b>
<i>Attributable to:</i>			
Equity holders of the Company	5,953	14,441	20,697
Non-controlling interest	-	-	-
<b>Total comprehensive income for the year</b>	<b>5,953</b>	<b>14,441</b>	<b>20,697</b>

# GLOSSARY

ADR	American Depository Receipt	ICOFR	Internal Control Over Financial Reporting
AGM	Annual General Meeting	IEX	Indian Energy Exchange
AI	Artificial Intelligence	IEPF	Investor Education and Protection Fund
ANDA	Abbreviated New Drug Application	IFRS	International Financial Reporting Standards
API	Active Pharmaceutical Ingredient	IMS	IMS Health Inc.
AS	Accounting Standards	Ind AS	Indian Accounting Standards
BfArM	Bundesinstitut Fur Arzneimittel und Medizinprodukte (Germany's Federal Institute for Drugs and Medical Devices)	INR	Indian Rupees
BPE	Business Process Excellence	IP	Intellectual Property
BR	Business Responsibility	IPA	Indian Pharmaceutical Alliance
BSE	Bombay Stock Exchange	IPDO	Integrated Product Development Organisation
CAGR	Compound Annual Growth Rate	ISIN	International Securities Identification Number
CCO	Chief Compliance Officer	IST	Indian Standard Time
CDP	Carbon Disclosure Project	IT	Information Technology
CDSL	Central Depository Services (India) Limited	KARV	Kallam Anji Reddy Vidyalaya
CEO	Chief Executive Officer	KAR-VJR	Kallam Anji Reddy - Vocational Junior College
CESTAT	Customs Excise and Service Tax Appellate Tribunal	KMP	Key Managerial Personnel
CFO	Chief Financial Officer	KPI	Key Performance Indicators
cGMP	Current Good Manufacturing Practice	KRA	Key Result Area
CHIP	Community Health Intervention Programme	KW	Kilo Watt
CHRO	Chief Human Resources Officer	LDL-C	Low-density lipoprotein Cholesterol
CIA	Chief Internal Auditor	LED	Light Emitting Diode
CII	Confederation of Indian Industry	MC	Management Council
CIN	Corporate Identity Number	MCA	Ministry of Corporate Affairs
CIS	Commonwealth of Independent States	MD	Managing Director
CKD	Chronic Kidney Disease	MD&A	Management Discussion & Analysis
CNS	Central Nervous System	MEO	Mandal Education Officer
COBE	Code Of Business Conduct and Ethics	MW	Mega Watt
CODM	Chief Operating Decision Maker	NAG	North America Generics
COO	Chief Operating Officer	NCEs	New Chemical Entities
CPS	Custom Pharmaceutical Services	NCLT	National Company Law Tribunal
CPCB	Central Pollution Control Board	NDA	New Drug Application
CSIM	Centre for Social Initiative and Management	NGO	Non-Governmental Organisation
CS	Company Secretary	NHLP	New Horizons Leadership Program
CSR	Corporate Social Responsibility	NLEM	National List of Essential Medicines
CTO	Chemical Technical Operations	NME	New Molecular Entity
CUSIP	Committee on Uniform Security Identification Procedures	NPPA	National Pharmaceutical Pricing Authority
CY	Calendar Year	NRI	Non Resident Indian
DIN	Director's Identification Number	NSDL	National Securities Depository Limited
DG sets	Diesel Generator sets	NSE	The National Stock Exchange of India Limited
DMF	Drug Master File	NVG	National Voluntary Guidelines
DOJ	United States Department of Justice	NYSE	New York Stock Exchange Inc.
DP	Depository Participant	OAI	Official Action Indicated
DPCO	Drug Price Control Order	OCI	Other Comprehensive Income
DPS	Dividend Per Share	OP	Out Patient
DRF	Dr. Reddy's Foundation	OTC	Over-the-counter
DRFHE	Dr. Reddy's Foundation for Health and Education	PAT	Profit After Tax
EBITDA	Earnings Before Interest, Taxes, Depreciation And Amortization	PBT	Profit Before Tax
EGM	Extraordinary General Meeting	PF	Provident Fund
EHS	Environment Health & Safety	PP	Proprietary Products
EIR	Establishment Inspection Report	PSAI	Pharmaceuticals Services and Active Ingredients
EMA	European Medicines Agency	PwD	People with Disabilities
EPS	Earnings Per Share	RD	Regional Director
ERM	Enterprise-wide Risk Management	R&D	Research and Development
ESOP	Employees Stock Option Plan	RoCE	Return on Capital Employed
ESOS	Employees Stock Option Scheme	RoW	Rest of World
EU	European Union	RTA	Registrar & Transfer Agent
FAQ	Frequently Asked Questions	SEBI	Securities and Exchange Board of India
FI	Financial Institutions	SEC	Securities and Exchange Commission
FI	Foreign Institutional Investor	SEZ	Special Economic Zone
FIRM COUNCIL	Finance, Investment and Risk Management Council	SG&A	Selling, General and Administrative
FPI	Foreign Portfolio investor	SHE	Safety, Health & Environment
FTO	Formulation Technical Operations	SIP	School Improvement Program
FY	Financial Year	SKU	Stock Keeping Unit
GAAP	Generally Accepted Accounting Principles	SMC	School Management Committee
GDR	Global Depository Receipt	SMP	Senior Management Personnel
GG	Global Generics	SPCB	State Pollution Control Board
GHG	Green House Gas	SS	Secretarial Standards
GMP	Good Manufacturing Practices	SOX	Sarbanes Oxley Act, 2002
GST	Goods and Services Tax	TLB	Transportation Load Builder
HDL	High-density Lipoproteins	UK	United Kingdom
HPLC	High Performance Liquid Chromatography	US/USA	United States of America
HR	Human Resources	USD/\$	United States Dollar
HVAC	Heat, Ventilation and Air Conditioning	USFDA	United States Food and Drugs Administration
HOC	Heat of Compression	UTI	Unit Trust of India
IASB	International Accounting Standards Board	WTD	Whole-time Director
ICAI	Institute of Chartered Accountants of India	ZLD	Zero Liquid Discharge

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 34th annual general meeting (AGM) of the members of Dr. Reddy's Laboratories Limited (CIN: L85195TG1984PLC004507) will be held on Friday, 27 July 2018 at 9.30 am at The Ballroom, Hotel Park Hyatt, Road No. 2, Banjara Hills, Hyderabad - 500 034, to transact the following business:

## ORDINARY BUSINESS:

1. To receive, consider and adopt the financial statements (standalone and consolidated) of the Company for the year ended 31 March 2018, including the audited balance sheet as at 31 March 2018 and the statement of profit and loss of the Company for the year ended on that date along with the reports of the board of directors and auditors thereon.
2. To declare dividend on the equity shares for the financial year 2017-18.
3. To reappoint Mr. K Satish Reddy (DIN: 00129701), who retires by rotation, and being eligible offers himself for the reappointment.

## SPECIAL BUSINESS:

4. **REAPPOINTMENT OF MR. ANUPAM PURI (DIN: 00209113) AS AN INDEPENDENT DIRECTOR FOR A SECOND TERM OF ONE YEAR PERIOD, IN TERMS OF SECTION 149 OF THE COMPANIES ACT, 2013.**

To consider and, if thought fit, to pass, with or without modification(s), the following resolution as a special resolution:

**"RESOLVED THAT** pursuant to the provisions of Section 149 and 152 read with Schedule IV and other applicable provisions, if any, of the Companies Act, 2013 and Companies (Appointment and Qualifications of Directors) Rules, 2014 (including any statutory modification(s) or re-enactment thereof, for the time being in force), Mr. Anupam Puri (DIN: 00209113) who was appointed as an independent director of the Company for a period of four years up to the conclusion of 34th annual general meeting (AGM), by the shareholders at the 30th AGM, in terms of Section 149 of the Companies Act, 2013 be and is hereby reappointed as an independent director of the Company for a second term for a period of one year only, to hold office up to 26 July 2019, not liable to retire by rotation."

5. **APPOINTMENT OF MR. PRASAD R MENON (DIN: 00005078) AS AN INDEPENDENT DIRECTOR IN TERMS OF SECTION 149 OF THE COMPANIES ACT, 2013.**

To consider and, if thought fit, to pass, with or without modification(s), the following resolution as an ordinary resolution:

**"RESOLVED THAT** pursuant to the provisions of Section 149 and 152 read with Schedule IV and other applicable provisions, if any, of the Companies Act, 2013 and Companies (Appointment and Qualifications of Directors) Rules, 2014 (including any statutory modification(s) or re-enactment thereof, for the time being in force), Mr. Prasad R Menon (DIN: 00005078) who was appointed as

an additional director of the Company, categorised as independent, by the board of directors with effect from 30 October 2017, in terms of Section 161 of the Companies Act, 2013 and in respect of whom the Company has received notice in writing under Section 160 of the Companies Act, 2013, from a member proposing him as a director, be and is hereby appointed as an independent director of the Company with effect from 30 October 2017 to hold office up to 29 October 2022, not liable to retire by rotation."

6. **APPROVAL OF 'DR. REDDY'S EMPLOYEES STOCK OPTION SCHEME, 2018' ('2018 ESOS').**

To consider and, if thought fit, to pass, with or without modification(s), the following resolution as a special resolution:

**"RESOLVED THAT** pursuant to the provisions of Section 62(1)(b) and other applicable provisions, if any, of the Companies Act, 2013 and the rules made thereunder (hereinafter referred to as 'CA 2013') and in accordance with the Memorandum and Articles of Association of the Company, provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (hereinafter referred to as 'SEBI LODR Regulations'), provisions of the Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 (hereinafter referred to as 'SEBI SBEB Regulations') and all other applicable laws, rules and regulations, if any, and subject to such other approvals, permissions and sanctions as may be necessary and such conditions and modifications as may be prescribed or imposed while granting such approvals, permissions and sanctions, consent of the members of the Company be and is hereby accorded to the formulation and implementation of 'Dr. Reddy's Employees Stock Option Scheme, 2018' (hereinafter referred to as '2018 ESOS' or the 'Scheme') and authorising the board of directors of the Company (hereinafter referred to as the 'Board' which term shall be deemed to include any committee, including the Nomination, Governance and Compensation Committee, which the Board has constituted/designated to exercise certain powers, including the powers, conferred by this resolution) to create, grant, offer, issue and/or allot from time to time, in one or more tranches, stock options not exceeding 50,00,000 (Fifty Lakhs) in number in aggregate, to or for the benefit of present and future employees/class of employees in the permanent employment of the Company, whether working in India or out of India, including directors of the Company, whether whole-time directors or not (but excluding an employee who is a Promoter (as defined in the SEBI SBEB Regulations), Promoter Group (as defined in the SEBI SBEB Regulations), independent directors (as defined in the SEBI SBEB Regulations), and a director who either by himself or through his relative or through any body-corporate, directly or indirectly, holds more than 10% (ten per cent) of the outstanding equity shares of the Company) and to such other persons as may be approved in terms of the applicable laws and by the Board, from time to time, with each such option(s) exercisable into equity share(s) or American Depository Receipt(s) ('ADR(s)') of the Company



## NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

as determined by the Board, which would in aggregate be exercisable into not more than 50,00,000 (Fifty Lakhs) equity shares of par value of ₹ 5/- each (including those underlying the ADRs), representing ~3.014% of the paid-up equity capital of the Company, in one or more tranches, at an exercise price, which shall not be less than the fair market value thereof as determined by the Board in accordance with applicable laws at the time of grant, and on such terms and conditions, as contained in the Scheme and/or summarized in the Statement annexed hereto and to provide for grant (subject to limits as specified) and subsequent vesting and exercise of options by eligible employees in the manner and method contained in the Statement annexed hereto and/or as the Board may decide in accordance with the provisions of the applicable laws and/or the provisions of the Scheme.

**RESOLVED FURTHER THAT** the equity shares/ADRs to be issued and allotted in terms of the Scheme as mentioned herein before shall rank *pari passu* with the then existing equity shares/ADRs of the Company for all purposes.

**RESOLVED FURTHER THAT** in case of any corporate action(s) such as right issues, bonus issues, change in capital structure, merger, split, consolidation of shares, sale of division/undertaking and others, the Board be and is hereby authorised to do all acts, deeds, matters and things as it may deem fit in its absolute discretion and permitted under applicable laws for the purpose of making a fair and reasonable adjustment to the entitlements under the Scheme, including but not limited to, by way of issue of any additional equity shares by the Company to the optionees, in which case the aforesaid ceiling of the stock options/ equity shares shall be deemed to have increased to the extent of such additional equity shares issued.

**RESOLVED FURTHER THAT** the Board be and is hereby authorised to take requisite steps for registration of applicable shares/ADRs with the United States Securities Exchange Commission and listing of the equity shares/ADRs allotted under the Scheme, from time to time on the Stock Exchanges where the equity shares/ADRs of the Company are listed.

**RESOLVED FURTHER THAT** the Company shall conform to the accounting policies prescribed from time to time under the SEBI SBEB Regulations and any other applicable laws and regulations to the extent relevant and applicable to the Scheme.

**RESOLVED FURTHER THAT** the Board be and is hereby authorized to formulate, decide upon and bring into effect the Scheme as per the terms approved in this resolution and at any time to modify, change, vary, alter, amend, suspend or terminate the Scheme subject to compliance with the applicable laws and regulations and to do all such acts, deeds, matters and things as it may in its absolute discretion deem fit, for such purpose and also to settle any issues, questions, difficulties or doubts that may arise in this regard without being required to seek any further consent or approval of the members and further to execute all such documents, agreements, writings and to give

such directions and/or instructions as may be necessary or expedient to give effect to such modification, change, variation, alteration, amendment, suspension or termination of the Scheme and do all other things incidental to and ancillary thereof.

**RESOLVED FURTHER THAT** the Board, be and is hereby authorized to do all such acts, deeds, and things, as it may, in its absolute discretion deem necessary or incidental to/ancillary thereof in this regard, including authorizing the officers of the company or authorizing or directing appointment of various intermediaries, advisors, consultants or representatives, being incidental to the effective implementation and administration of the Scheme as also to make applications to the appropriate authorities, parties, institutions, as the case may be, for their requisite approvals as also to initiate or take all necessary or incidental actions in the above connection and to settle all such questions, difficulties or doubts whatsoever that may arise and take all such steps and decisions in this regard."

**7. GRANT OF STOCK OPTIONS TO THE EMPLOYEES OF THE SUBSIDIARY COMPANIES OF THE COMPANY UNDER 'DR. REDDY'S EMPLOYEES STOCK OPTION SCHEME, 2018' ('2018 ESOS').**

To consider and, if thought fit, to pass, with or without modification(s), the following resolution as a special resolution:

**"RESOLVED THAT** pursuant to the provisions of Section 62(1)(b) and other applicable provisions, if any, of the Companies Act, 2013 and in accordance with the Memorandum and Articles of Association of the Company, provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (hereinafter referred to as 'SEBI LODR Regulations'), provisions of the Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 (hereinafter referred to as 'SEBI SBEB Regulations'), other applicable laws and subject to such other approvals, permissions and sanctions as may be necessary and such conditions and modifications as may be prescribed or imposed while granting such approvals, permissions and sanctions, and further subject to the consent of the members of the Company having been given for the formulation and implementation of the 'Dr. Reddy's Employees Stock Option Scheme, 2018' (hereinafter referred to as '2018 ESOS' or the 'Scheme'), consent of the members of the Company be and is hereby accorded to the board of directors of the Company (hereinafter referred to as the 'Board' which term shall be deemed to include any committee, including the Nomination, Governance and Compensation Committee, which the Board has constituted/designated to exercise certain powers, including the powers, conferred by this resolution) to, create, grant, offer, issue and/or allot from time to time, in one or more tranches, the stock options under the said Scheme to the present and future, permanent employees/class of employees of the present/future subsidiary(s) of the Company including their director(s), whether whole-time director or not, but

## NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

excluding independent directors (as defined in the SEBI SBEB Regulations) and also excluding such other persons not eligible for grant of stock options under the SBEB Regulations, if any, from time to time, on such terms and conditions, as set out in the Scheme and/or summarised in the Statement annexed hereto and/or as the Board may decide in accordance with the provisions of the applicable laws and/or the provisions of the Scheme.

**RESOLVED FURTHER THAT** the Board, be and is hereby authorized to do all such acts, deeds, and things, as it may, in its absolute discretion deem necessary in this regard, including authorizing or directing appointment of various intermediaries, advisors, consultants or representatives, being incidental to the effective implementation and administration of the Scheme as also to make applications to the appropriate authorities, parties, institutions, as the case may be, for their requisite approvals as also to initiate or take all necessary or incidental actions in the above connection and to settle all such questions, difficulties or doubts whatsoever that may arise and take all such steps and decisions in this regard."

**8. IMPLEMENTATION OF THE 'DR. REDDY'S EMPLOYEES STOCK OPTION SCHEME, 2018' ('2018 ESOS') THROUGH DR. REDDY'S EMPLOYEES ESOS TRUST.**

To consider and, if thought fit, to pass, with or without modification(s), the following resolution as a special resolution:

"**RESOLVED THAT** pursuant to provisions of the Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 (hereinafter referred to as 'SEBI SBEB Regulations') and other applicable laws, if any, and further subject to the consent of the members of the Company having been given for the formulation and implementation of the Scheme, consent of the members of the Company be and is hereby accorded to the board of directors including the Nomination, Governance and Compensation Committee to delegate the administration of the 'Dr. Reddy's Employees Stock Option Scheme, 2018' (hereinafter referred to as '2018 ESOS' or the 'Scheme') with respect to stock options to be granted against equity shares (to the extent as considered necessary/desirable by the Board), to 'Dr. Reddy's Employees ESOS Trust' (hereinafter referred to as 'ESOS Trust'), to be settled by the Company, which ESOS Trust may subscribe to, acquire, undertake secondary acquisition, hold, transfer and/or deal in equity shares of the Company, as the case may be, in one or more tranches, in the manner as set out in the Scheme and/or as may be directed by the Board and/or summarised in the Statement annexed hereto and in due compliance with the conditions as set out in the Companies Act, 2013, the SEBI SBEB Regulations and other applicable laws and regulations.

**RESOLVED FURTHER THAT** for the purpose of giving effect to the above resolution, the board of directors including the Nomination, Governance and Compensation Committee or the officers authorised by them in this regard be and

are hereby authorised to do all such acts, deeds, matters and things as may be necessary or expedient and to settle any questions, difficulty or doubts that may arise in this regard without requiring the board of directors to secure any further consent or approval of the member(s) of the Company."

**9. AUTHORISATION TO DR. REDDY'S EMPLOYEES ESOS TRUST (ESOS TRUST) FOR SECONDARY ACQUISITION OF EQUITY SHARES FOR THE PURPOSE OF STOCK OPTIONS.**

To consider and, if thought fit, to pass, with or without modification(s), the following resolution as a special resolution:

"**RESOLVED THAT** pursuant to applicable provisions of Companies Act, 2013 and the rules made thereunder (hereinafter referred to as the 'CA 2013') and in accordance with the Memorandum and Articles of Association of the Company, provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (hereinafter referred to as 'SEBI LODR Regulations'), provisions of the Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 (hereinafter referred to as 'SEBI SBEB Regulations'), and subject to such other approvals, permissions and sanctions as may be necessary and such conditions and modifications as may be prescribed or imposed while granting such approvals, permissions and sanctions, and further subject to the consent of the members of the Company having been given for the formulation and implementation of the 'Dr. Reddy's Employees Stock Option Scheme, 2018' (hereinafter referred to as '2018 ESOS' or the 'Scheme'), consent of the members of the Company be and is hereby accorded for secondary acquisition of up to 25,00,000 (Twenty Five Lakhs) equity shares of the Company, of par value of ₹ 5/- each, representing ~1.507% of the paid-up share capital, by the Dr. Reddy's Employees ESOS Trust (hereinafter referred to as 'ESOS Trust'), in one or more tranches, subject to the maximum/overall limits as specified under the CA 2013 and/or the SEBI SBEB Regulations, for the purpose of implementation of Scheme in the manner as set out in the Scheme and/or as may be directed by the board of directors including the Nomination, Governance and Compensation Committee and/or summarised in the Statement annexed hereto.

**RESOLVED FURTHER THAT** pursuant to the applicable provisions of CA 2013 and the rules made thereunder, and subject to the limits specified under the applicable laws, including in terms of the Companies (Share Capital and Debentures) Rules, 2014, approval of the members of the Company be and is hereby accorded to the board of directors including Nomination, Governance and Compensation Committee to make provision of money(s) by way of loan(s) to the ESOS Trust for secondary acquisition of up to 25,00,000 (Twenty Five Lakhs) equity shares of par value of ₹ 5/- each in one or more tranches for the purpose of implementation of the Scheme, including cashless exercise of such stock options, if any, in the manner as set out in the Scheme and/or as may be directed by the board of directors including

## NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

the Nomination, Governance and Compensation Committee and/or summarised in the Statement annexed hereto.

**RESOLVED FURTHER THAT** in case of any corporate action(s) such as rights issue or bonus issue or buy-back of shares, split or merger or consolidation of shares etc. of the Company, the number of shares of the Company to be acquired through secondary acquisition by the ESOS Trust shall be appropriately adjusted in accordance with the applicable laws.

**RESOLVED FURTHER THAT** for the purpose of giving effect to the above resolution, the board of directors including the Nomination, Governance and Compensation Committee or the officers authorised by them in this regard be and are hereby authorised to do all such acts, deeds, matters and things as may be necessary or expedient in this regard and to settle any questions, difficulty or doubts that may arise in this regard without requiring the board of directors to secure any further consent or approval of the member(s) of the Company."

**10. TO RATIFY THE REMUNERATION PAYABLE TO COST AUDITORS, M/S. SAGAR & ASSOCIATES, COST ACCOUNTANTS FOR THE FINANCIAL YEAR ENDING 31 MARCH 2019.**

To consider and, if thought fit, to pass, with or without modification(s), the following resolution as an ordinary resolution:

**"RESOLVED THAT** pursuant to the provisions of Section 148 and other applicable provisions, if any, of the Companies Act, 2013 and the Companies (Audit and Auditors) Rules, 2014 (including any statutory modification(s) or re-enactment thereof, for the time being in force), M/s. Sagar & Associates, cost accountants (Firm Registration No. 000118) appointed by the board of directors of the company as cost auditors for the financial year ending 31 March, 2019, be paid a remuneration of ₹ 700,000/- (Rupees Seven Lakhs) per annum plus out of pocket expenses, at actuals and applicable taxes.

**RESOLVED FURTHER THAT** the board of directors of the company be and are hereby authorized to do all such acts, matters, deeds and things as may be necessary to give effect to the above resolution."

**NOTES:**

1. The statement pursuant to Section 102(1) of the Companies Act, 2013 and the rules made under in respect of the special business set out in the notice, Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 and Secretarial Standard on General Meetings (SS-2), wherever applicable, are annexed hereto.
2. A member entitled to attend and vote at the AGM 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 commencement of meeting.

A person can act as a proxy on behalf of not exceeding fifty members and holding in the aggregate not more than ten percent of the total share capital of the company carrying voting rights. A member holding more than ten percent of the total share capital of the company carrying voting rights may appoint a single person as proxy and such person shall not act as a proxy for any other person or member.

3. Corporate members intending to send their authorised representatives to attend the meeting are requested to send to the company a certified copy of the board resolution authorizing their representative to attend and vote on their behalf at the meeting.
4. During the period beginning 24 hours before the time fixed for the commencement of the meeting and ending with the conclusion of the meeting, a member would be entitled to inspect the proxies lodged with the company, at any time during the business hours of the company, provided that not less than three days of notice in writing is given to the company.
5. The requirement to place the matter relating to appointment of statutory auditors for ratification by members at every annual general meeting is omitted vide notification dated 7 May 2018 issued by the Ministry of Corporate Affairs, New Delhi. Accordingly, resolution for ratification of the appointment of statutory auditors who were appointed for a period of five years at the 32nd annual general meeting held on 27 July 2017 is not proposed at this AGM.
6. The register of directors and key managerial personnel and their shareholding, maintained under Section 170 of the Companies Act, 2013, will be available for inspection by the members at the AGM.
7. The register of contracts or arrangements in which directors are interested, maintained under Section 189 of the Companies Act, 2013, will be available for inspection by the members at the AGM.
8. The register of members and share transfer books of the company will remain closed from Wednesday, 18 July 2018 to Friday, 20 July 2018 (both days inclusive).
9. The board of directors of the company at their meeting held on 22 May 2018 have recommended a dividend of ₹ 20/- per equity share of ₹ 5/- each as final dividend for the financial year 2017-18. Dividend, if declared, at the 34th AGM, will be paid on or after 1 August 2018, to those members whose names appear on the register of members of the company as of end of the day on 17 July 2018.
10. The annual report for the financial year 2017-18 has been sent through e-mail to those members who have opted to receive electronic communication or who have registered their e-mail addresses with the company/depository

## NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

participants. The annual report is also available on company's website [www.drreddys.com](http://www.drreddys.com). The physical copy of the annual report has been sent to those members who have either opted for the same or have not registered their e-mail addresses with the company/depository participant. The members will be entitled to a physical copy of the annual report for the financial year 2017-18, free of cost, upon sending a request to the company secretary at 8-2-337, Road No. 3, Banjara Hills, Hyderabad - 500 034.

11. In case any member is desirous to receive communication from the company in electronic form, they may register their e-mail address on [www.drreddys.com/investors/investor-services/shareholder-information.aspx](http://www.drreddys.com/investors/investor-services/shareholder-information.aspx) or with their depository participant or send their consent at [shares@drreddys.com](mailto:shares@drreddys.com) along with their folio no. and valid e-mail address for registration.
12. Pursuant to Section 108 of the Companies Act, 2013, read with rule 20 of the Companies (Management and Administration) Rules, 2014 as substituted by the Companies (Management and Administration) Amendment Rules, 2015 and regulation 44 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations), the company is pleased to offer voting by electronic means to the members to cast their votes electronically on all resolutions set forth in this notice. The detailed instructions for e-voting are given as a separate attachment to this notice.
13. Members, desiring any information relating to the financials from the management or the statutory auditors, are requested to write to the company at an early date to keep the information ready.
14. Members are requested to kindly bring their copy of the annual report with them at the AGM, as no extra copy of annual report would be made available at the AGM venue. Members/proxies should also bring the attached attendance slip, duly filled and hand it over at the entrance to the venue.
15. The certificate from the auditors of the company certifying that the company's 'Dr. Reddy's Employees Stock Option Scheme, 2002' and 'Dr. Reddy's Employees ADR Stock Option Scheme, 2007' are being implemented in accordance with the SEBI regulations and the resolution of the members passed at the general meeting, will be available for inspection by the members at the AGM.
16. Members 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 registrar and transfer agent, Bigshare Services Private Limited, if the shares are held by them in physical form.
17. In terms of Schedule I of the Listing Regulations, listed companies are required to use the Reserve Bank of India's approved electronic mode of payment such as electronic clearance service (ECS), LECS (Local ECS)/RECS (Regional ECS)/NECS (National ECS), national electronic fund transfer (NEFT), etc. for making payments like dividend etc. to the members.  
  
Accordingly, members holding securities in demat mode are requested to update their bank details with their depository participants. Members holding securities in physical form should send a request updating their bank details, to the Company's registrar and transfer agent, Bigshare Services Private Limited.
18. SEBI has mandated the submission of permanent account number (PAN) by every participant in securities market. Members holding shares in electronic form are, therefore, requested to submit their PAN to their depository participants with whom they are maintaining their demat accounts. Members holding shares in physical form should submit their PAN to the Company or its registrar and transfer agent, Bigshare Services Private Limited.
19. Pursuant to Section 72 of the Companies Act, 2013, members are entitled to make a nomination in respect of shares held by them. Members desirous of making a nomination, pursuant to the rule 19(1) of the Companies (Share Capital and Debentures) Rules, 2014 are requested to send their requests in form no. SH-13, to the registrar and transfer agent of the Company. Further, members desirous of cancelling/varying nomination pursuant to the rule 19(9) of the Companies (Share Capital and Debentures) Rules, 2014, are requested to send their requests in form no. SH-14, to the registrar and transfer agent of the Company. These forms will be made available on request.
20. All documents referred to in the accompanying notice will be available for inspection at the registered office of the Company during business hours on all working days up to the date of 34th AGM of the Company.

By order of the board

Place : Hyderabad  
Date : 23 June 2018

**Sandeep Poddar**  
Company Secretary

## ANNEXURE TO NOTICE OF AGM

Statement provided under Secretarial Standards on General Meetings (SS-2).

### ITEM NO. 3

Mr. K Satish Reddy (aged 51 years) (DIN: 00129701) joined Dr. Reddy's in 1993 as an executive director responsible for manufacturing and new product development. In 1997, he was appointed as managing director. In the mid-1990s, as the Company prepared for its global foray, he anchored the establishment of key systems and initiatives that positioned Dr. Reddy's for rapid expansion and helped to build its brand and corporate identity.

Mr. Reddy played an instrumental role in the Company's transition from a bulk drugs manufacturer to a global player in the branded space by spearheading Dr. Reddy's entry into emerging markets internationally. He is focussed on translating the Company's strategy into action to drive its growth and performance globally.

Mr. Reddy was reappointed as whole-time director designated as managing director and chief operating officer for a period of five years commencing on 1 October 2012. Following the demise of the Company's founder, Dr. K Anji Reddy, he was re-designated as vice-chairman and managing director effective 30 March 2013 and has been subsequently re-designated as the chairman of the Company effective 13 May 2014.

The board of directors and shareholders of Dr. Reddy's, at their meetings on 12 May 2017 and 28 July 2017 respectively, approved the reappointment of Mr. Reddy as whole-time director designated as chairman of the Company for a further period of five years, commencing from 1 October 2017 to 30 September 2022. He retires by rotation at the 34th AGM of the Company and, being eligible, offers himself for the re-appointment.

The Company has received an intimation in form DIR-8 pursuant to rule 14 of the Companies (Appointment and Qualification of Directors) Rules, 2014, from Mr. Reddy to the effect that he is not disqualified in accordance with Section 164(2) of the Companies Act, 2013.

He holds 1,019,332 equity shares in the Company.

Except Mr. G V Prasad and Mr. K Satish Reddy and their relatives, none of the other directors or key managerial personnel of the Company and their relatives are concerned or interested, financially or otherwise, in the resolution set out at item no. 3 of the notice.

The Board recommends the resolution set forth in item no. 3 of the notice for approval of the members.

### About Mr. Reddy:

Mr. Reddy graduated in Chemical Engineering from Osmania University, India, in 1988 and went on to receive an M.S. in Medical Chemistry from Purdue University, USA, in 1990.

Mr. Reddy is also a director on the boards of: Greenpark Hotels and Resorts Limited, Stamlo Industries Limited, Dr. Reddy's Holdings Limited, Araku Originals Private Limited, Cipro Estates Private Limited, KAR Therapeutics & Estates Private Limited, Quin Estates Private Limited, Satish Reddy Estates Private Limited, Molecular Connections Private Limited, Dr. Reddy's Trust Services Private Limited, Dr. Reddy's Research Foundation, Dr. Reddy's Institute of Life Sciences, Ruthenika Technologies Limited and Company's wholly-owned subsidiaries, Aurigene Discovery Technologies Limited, Dr. Reddy's Bio-Sciences Limited and Idea2Enterprises (India) Private Limited.

Mr. Reddy has attended four board meetings out of the five held during FY2018. He also participated in one meeting through telecon, although he had requested and was granted leave of absence for that meeting. He is a member of Corporate Social Responsibility Committee and Stakeholders' Relationship Committee and chairman of Banking and Authorisations Committee of Dr. Reddy's Laboratories Limited.

**Statement pursuant to Section 102(1), other provisions of the Companies Act, 2013, the rules made thereunder, as applicable, the Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 (hereinafter referred to as the 'SEBI SBEB Regulations') and under secretarial standards on general meetings (SS-2) for items no. 4 - 10, wherever applicable.**

### ITEM NO. 4

Mr. Anupam Puri (aged 73 years) (DIN: 00209113) was appointed as a director on the Board of the Company in June 2002. In terms of Section 149 and other applicable provisions of the Companies Act, 2013, Mr. Puri was appointed as an independent director for a period of four years at the 30th AGM of the Company held on 31 July 2014. Accordingly his first term as an independent director, after the provisions of the Companies Act, 2013 became effective, is ending on 27 July 2018 (the date of 34th AGM).

His presence will be critical in the process of refreshing the Board composition in a gradual manner and to maintain continuity during the Board's transition. In July 2019, four directors complete their term. We intend to seek shareholder approval for a sub set of these board members for terms varying from 2 to 4 years. We also intend to elect two new board members this year. Given this significant transition of the board, it will be in the best interest of the Company to extend Mr. Puri's tenure as a board member for a period to help the board maintain continuity in the face of change in composition of the Board in addition to the changes in the management team and the competitive dynamics of the industry.

Mr. Puri, chairperson of the Nomination, Governance and Compensation Committee and the lead independent director continues to give strategic directions/guidance to the Company, till his successor is identified and appointed. The strategic guidance from Mr. Puri by virtue of his deep insight into industry as well as hands on experience in consultancy for more than four decades are of paramount value. More so, in view of the recent significant restructuring of the senior leadership within the organisation, as well as the adverse market dynamics and unforeseen shifts in the competitive landscape.

## ANNEXURE TO NOTICE OF AGM (CONTINUED)

It is under these circumstances that the board of directors propose to reappoint Mr. Puri, as an independent director for a second term for a period of one year only, against a second term of up to five years as allowed under the Companies Act.

Furthermore, the NYSE Listed Company Manual provides that the Audit Committee and Nominating/Corporate Governance Committee and Compensation Committee members must be independent. Also a lead director has to be an independent director as per the listing standards of the New York Stock Exchange Inc.

Section 149(10) of the Companies Act, 2013, provides that an independent director shall hold office for a term up to five consecutive years on the board of a Company but shall be eligible for reappointment, for another term of up to five years, on passing of a special resolution by the shareholders.

The Company has received (i) intimation in form DIR-8 pursuant to rule 14 of the Companies (Appointment and Qualification of Directors) Rules, 2014, from Mr. Puri to the effect that he is not disqualified in accordance with Section 164(2) of the Companies Act, 2013; (ii) declaration that he meets the criteria of independence as provided in Section 149 of the Companies Act, 2013; and (iii) a notice in writing from a member under Section 160 of the Act proposing the candidature of Mr. Puri as a director of the Company.

In terms of Section 152 and Schedule IV of the Companies Act, 2013, outcome of performance evaluation for FY2018 and recommendations of the Nomination, Governance and Compensation Committee, the Board is of the opinion that Mr. Puri fulfils the conditions for his reappointment as an independent director as specified in the Companies Act, 2013 and the Listing Regulations and is independent of the management.

A copy of the draft letter of reappointment, setting out the terms and conditions of appointment of Mr. Puri, is available for inspection, without any fee, by the members at the Company's registered office during business hours on all working days up to the date of the AGM.

Mr. Puri holds 13,500 ADRs having 13,500 underlying equity shares in the Company as on 31 March 2018.

Except Mr. Puri and his relatives, none of the other directors or key managerial personnel of the Company and their relatives are concerned or interested, financially or otherwise, in the resolution set out in item no. 4 of the notice.

The board recommends the resolution set forth in item no. 4 of the notice for approval of the members.

**About Mr. Puri:**

From 1970 to 2000, Mr. Puri was associated 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 government 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 their Board. He is currently a management consultant.

Mr. 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. Puri also holds directorship in Mahindra & Mahindra Limited, Tech Mahindra Limited and Company's wholly-owned subsidiary Dr. Reddy's Laboratories Inc., USA.

He is the chairman of Nomination, Governance and Compensation Committee and a member of Science, Technology and Operations Committee of Dr. Reddy's Laboratories Limited. Apart from this, he is also a member of the Audit Committee and Compensation Committee of Tech Mahindra Limited and Strategic Investment Committee of Mahindra & Mahindra Limited.

**ITEM NO. 5**

Mr. Prasad R Menon (aged 72 years) (DIN: 00005078) was appointed as an additional director categorized as independent by the board for a term of five years with effect from 30 October 2017 up to 29 October 2022, subject to approval of shareholders of the Company at the annual general meeting.

The Company has received (i) consent in writing to act as director in form DIR-2 pursuant to rule 8 of the Companies (Appointment and Qualification of Directors) Rules, 2014; (ii) intimation in form DIR-8 pursuant to rule 14 of the Companies (Appointment and Qualification of Directors) Rules, 2014, from Mr. Prasad R Menon to the effect that he is not disqualified in accordance with Section 164(2) of the Companies Act, 2013; (iii) declaration that he meets the criteria of independence as provided in Section 149 of the Companies Act, 2013; and (iv) a notice in writing from a member under Section 160 of the Act proposing the candidature of Mr. Menon as a director of the Company.

In terms of Section 152 and Schedule IV of the Companies Act, 2013, the Board is of the opinion that Mr. Menon, fulfils the conditions for his appointment as an independent director as specified in the Companies Act, 2013 and the Listing Regulations and is independent of the management.

A copy of the draft letter of appointment, setting out the terms and conditions of appointment of Mr. Menon, is available for inspection, without any fee, by the members at the Company's registered office during business hours on all working days up to the date of the AGM.

He doesn't hold any equity shares in the Company.

Except Mr. Menon and his relatives, none of the other directors or key managerial personnel of the Company and their relatives are concerned or interested, financially or otherwise, in the resolution set out in item no. 5 of the notice.

## ANNEXURE TO NOTICE OF AGM (CONTINUED)

The board recommends the resolution set forth in item no. 5 of the notice for approval of the members.

**About Mr. Menon:**

Mr. Menon is a chemical engineer from the Indian Institute of Technology (IIT), Kharagpur. Mr. Menon has over 40 years of diverse experience in some of the premier multinational and Indian companies in the chemical and power industry.

After 20 years with chemical giant ICI, Mr. Menon went on to become director - technical, of Nagarjuna Fertilisers and Chemicals Limited. In 2000, he took over as managing director of Tata Chemicals, and in 2006, he stepped outside the chemicals field to become managing director of Tata Power, from where he eventually retired in January 2011.

He is also a director on the boards of Axis Bank Limited, SKF India Limited and Tata Foundation.

Mr. Menon has attended two board meetings out of the three held since his appointment. He was granted leave of absence for one meeting.

He is a member of Nomination, Governance and Compensation Committee and Science, Technology and Operations Committee of Dr. Reddy's Laboratories Limited. Mr. Menon is also a member of the Nomination and Remuneration Committee, Committee of Directors, IT Strategy Committee and Acquisitions and Mergers Committee of Axis Bank Limited and Audit Committee and Nomination and Remuneration Committee of SKF India Limited.

**ITEM NOS. 6, 7, 8 and 9**

In order to align the interests of key executives/employees with interest of shareholders of the Company in driving the long-term value creation and to create a culture of enterprise and build strong commitment towards critical goals/milestones of the Company, the Company intends to implement 'Dr. Reddy's Employees Stock Option Scheme, 2018' (hereinafter referred to as '2018 ESOS' or 'Scheme') in terms whereof stock options would be granted to eligible employees to acquire the equity shares/American Depository Receipts ('ADRs'), as the case may be, of the Company.

Pursuant to Regulation 6 of the Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 (hereinafter referred to as the 'SEBI SBEB Regulations'), the Company is seeking approval of its members by way of a special resolution to offer 2018 ESOS to eligible employees (as defined herein below).

As per the SEBI SBEB Regulations, approval of members by way of separate special resolutions are also required to be obtained by the Company, if (i) the benefits of the 2018 ESOS are to be extended to the present/future employees of the present/future subsidiary(ies) of the Company; (ii) implementation of the 2018 ESOS, through 'Dr. Reddy's Employees ESOS Trust' ('ESOS Trust') and (iii) authorisation to ESOS trust for secondary acquisition for implementation of the 2018 ESOS.

The special resolution set out at Item No. 7 proposes to cover the employees of the subsidiary(ies) of the Company (present/future) under 2018 ESOS.

In accordance with the SEBI SBEB Regulations, the shares for the purposes of 2018 ESOS are proposed to be allotted directly to the optionee (including custodian for the purpose of issuing ADRs to such optionees) or to the trust by way of primary issuance by the Company and/or by transfer of shares acquired by way of secondary acquisition by the trust. For the purposes of implementing the aforesaid, it is proposed to set-up a 'Dr. Reddy's Employees ESOS Trust' ('ESOS Trust'). However, any ADRs underlying the stock options would not be issued to or held by the ESOS Trust and the same would be implemented directly by the Company through the Nomination, Governance and Compensation Committee.

The special resolutions set out at item nos. 8 & 9 propose to authorize the board of directors including Nomination, Governance and Compensation Committee to delegate the administration of the 2018 ESOS with respect to stock options to be granted against equity shares to the ESOS Trust to the extent considered necessary or desirable and to authorize the ESOS Trust to acquire equity shares of the Company from the secondary market.

The main features of the 2018 ESOS are as under:

**a) Brief description of the Scheme:**

The Company proposes to introduce 2018 ESOS to align the interests of key executives/employees with interest of shareholders in driving the long-term value creation and to create a culture of enterprise and build strong commitment towards critical goals/milestones of the Company. Stock options granted under the Scheme from time to time shall vest on satisfaction of vesting conditions, if any, which can thereafter be exercised during or within the exercise period resulting in allotment/transfer of equity shares/ADRs of the Company.

The Nomination, Governance and Compensation Committee ('NGCC') shall administer and/or superintend the 2018 ESOS and delegate functions/powers, to the extent considered necessary or desirable, to the ESOS Trust relating to the administration of the 2018 ESOS with respect to options granted against shares. All questions of interpretation of the 2018 ESOS shall be determined by the NGCC and such determination shall be final, conclusive and binding.

The 2018 ESOS shall contain the broad terms and conditions for grant of options in accordance with the laid provision of the applicable laws. The specific terms and conditions of the 2018 ESOS including specific parameters unique to each eligible employee and/or grant shall be determined by NGCC, from time to time, and/or stated in the option agreement, which shall be executed by the relevant parties at the time of grant of options.

**b) Total number of options to be granted:**

The total number of options that may be granted under 2018 ESOS shall not exceed 50,00,000 (Fifty Lakhs) stock options in aggregate as per below details.

## ANNEXURE TO NOTICE OF AGM (CONTINUED)

Particulars	No. of securities to be acquired from secondary market	No. of securities to be issued by the Company	Total
Stock options against equity shares	25,00,000	15,00,000	40,00,000
Stock options against ADRs	-	10,00,000	10,00,000
<b>Total</b>	<b>25,00,000</b>	<b>25,00,000</b>	<b>50,00,000</b>
% of paid-up capital as of March 31, 2018	~1.507%	~1.507%	~3.014%

Each option when exercised shall be converted into such number of fully paid-up equity share(s)/ADRs of the Company as determined by NGCC at the time of grant. The options may be granted in one or more tranches as may be decided by the NGCC. The options will lapse if not exercised within the specified exercise period as specified under the Scheme. Vested options that lapse due to non-exercise or unvested options that get cancelled due to resignation of the employees or otherwise, would be available for being re-granted at a future date.

In case of any corporate action(s) such as right issues, bonus issues, change in capital structure, merger, split, consolidation of shares, sale of division/undertaking and others, the ceiling as aforesaid shall be deemed to be increased/decreased, as may be determined by the NGCC, to facilitate making a fair and reasonable adjustment to the entitlements of participants under 2018 ESOS, which shall make such determination taking into consideration that total value of the options to the optionee and the vesting period/life of the options remains the same after the corporate action.

**c) Identification of classes of employees entitled to participate in 2018 ESOS:**

Following classes of present or future employees would be considered for participation in 2018 ESOS:

- 1) Permanent employees of the Company, whether working in India or outside India;
- 2) Director of the Company, whether a whole-time director or not;
- 3) Employees/directors as enumerated in sub clauses (1) and (2) above, of subsidiary(ies) of the Company, whether working in India or outside India; and
- 4) Such other persons, as may from time to time be allowed under Applicable Laws and as may be decided by the NGCC.

Following persons shall not participate in the 2018 ESOS:

- 1) an employee who is a Promoter or belongs to the Promoter Group within the meaning of the SEBI SBEB Regulations;
- 2) a director who either by himself or through his relative or through any body corporate, directly or indirectly holds more than 10% of the outstanding equity shares of the Company; and
- 3) an independent director within the meaning of the Companies Act, 2013 and Regulation 16(b) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 on the board of the Company or the board of directors of its subsidiary(ies).

The eligibility criteria required to be satisfied in addition to the foregoing would be as determined by the terms of employment of the employee and would include the criteria as determined by NGCC from time to time, having regard inter alia to various parameters such as length of service, grade, performance, roles, technical knowledge, leadership qualities, merit, contribution and conduct, future potential, etc.

Any employee holding more than 2% of the outstanding share capital of the company shall not be eligible under the 2018 ESOS.

**d) Requirements of vesting and period of vesting:**

Options granted under this Scheme would vest upon fulfilment of the performance criteria or any other criteria/condition as may be decided by the NGCC and specified in the option agreement, so long as the optionee remains in continued employment with the Company/its subsidiary (ies). The vesting period with respect to each grant shall be as determined by NGCC provided that the minimum vesting period would not be less than a period of 1 (one) year from the date of grant of such option and the maximum vesting period shall not be more than a period of 5 (five) years from the date of grant of such option or such other periods as may be allowed for both under the applicable laws.

**e) Maximum period within which the options shall be vested:**

The maximum period within which options granted under 2018 ESOS shall vest would not be more than 5 (five) years from the date of grant of such options.

**f) Exercise price or pricing formula:**

The exercise price for an option shall be as determined by the NGCC and specified in the option agreement which shall not be less than the fair market value thereof as determined in accordance with the applicable laws and the SEBI SBEB Regulations, at the time of such grant (subject to any fair and reasonable adjustments thereto that may be made by NGCC on account of corporate actions of the Company in order to comply with the SEBI SBEB Regulations).



## ANNEXURE TO NOTICE OF AGM (CONTINUED)

g) **Exercise period and the process of exercise:**

The optionee will be permitted to exercise vested options during or within the exercise period as may be determined by the NGCC and set out in the option agreement. However, in no event shall the exercise period exceed a period of 5 (five) years from the vesting date.

The vested options shall be exercisable by the optionee by submitting an application to the Company/ESOS Trust expressing his/her desire to exercise such vested options in such manner and in such format as may be prescribed by the NGCC. In case of cashless system of exercise of vested options, if any, the NGCC shall be entitled to specify such procedures and/or mechanisms relating to such exercise of options.

h) **Appraisal process for determining the eligibility of employees under 2018 ESOS:**

The appraisal process for determining the eligibility for grant of options under the 2018 ESOS shall be decided by the NGCC from time to time, at its discretion, which may also consider the eligible employees based on recommendations it may invite from the board of directors/the chief executive officer/management of the Company in this regard.

i) **Maximum number of options to be issued per employee and in aggregate:**

Subject to the limits specified in the applicable laws and SEBI SBEB Regulations, no eligible employee shall be granted, in any financial year of the Company, options to acquire more than or equaling 0.2% of the outstanding issued share capital as on the date of grant (excluding outstanding options and conversions).

The maximum number of options which can be granted in aggregate under 2018 ESOS shall be 50,00,000 (Fifty Lakhs).

j) **Maximum quantum of benefits to be provided per employee under the 2018 ESOS:**

The maximum quantum of benefits underlying the options issued to an eligible employee shall be equal to the difference between the option exercise price and the market price as on the exercise date, subject to applicable taxes.

k) **Implementation or administration of Scheme:**

The Scheme shall be implemented and administered directly by the Company/or through the ESOS Trust as discussed in the foregoing paragraphs. However, any secondary acquisition of shares for the purposes of 2018 ESOS will necessarily be done only through the ESOS Trust.

l) **Source of acquisition of shares under the Scheme:**

The Scheme contemplates both new issuance of shares/ADRs by the Company as well as secondary acquisition of shares by the ESOS Trust, in one or more tranches.

m) **Amount of loan to be provided for implementation of the Scheme(s) by the Company to the ESOS Trust, its tenure, utilization, repayment terms, etc:**

Subject to compliance with applicable laws, including limits as prescribed under the Companies Act, 2013, the Company proposes to provide loans as may be required by the ESOS Trust from time to time to enable it to make secondary acquisition of the shares of the Company for the purposes of implementing 2018 ESOS. The loans will be repayable to the Company by the ESOS Trust upon terms as determined by NGCC upon exercise of the options which are backed by shares acquired through secondary acquisition.

n) **Maximum percentage of secondary acquisition:**

Subject to the maximum/overall limits specified in the Companies Act, 2013 and/or SEBI SBEB Regulations, the maximum number of shares that may be acquired, from time to time, by way of secondary acquisition shall not exceed 25,00,000 (Twenty Five Lakhs) equity shares of the Company, representing 1.507% of the paid-up share capital.

o) **Accounting policies:**

The Company shall conform with the accounting policies and as prescribed under Regulation 15 of the SEBI SBEB Regulations.

p) **Method of option valuation:**

The fair value of employee stock options is measured using the Black-Scholes-Merton valuation model. Measurement inputs include share price on grant date, exercise price of the instrument, expected volatility (based on weighted average historical volatility), expected life of the instrument (based on historical experience), expected dividends, and the risk free interest rate (based on government bonds).

q) **Termination/resignation of optionee:**

In the event of resignation/termination of an optionee, subject to the specific approval of the NGCC, such optionee may exercise his or her option within such period of time as is specified in the option agreement to the extent that the option is vested on the date of resignation/termination. In the absence of a specified time in the option agreement, the option shall remain exercisable for three (3) months following the optionee's resignation/termination.

Unless the Nomination, Governance and Compensation Committee permits otherwise, in the case of termination of employment of the optionee by the Company for cause on the part of optionee, including due to breach of policies or code of conduct of the Company or the terms of employment, all options of the optionee, whether vested or not, shall be forfeited.

r) **Lapse of options:**

The vested options shall lapse if not exercised within the specified exercise period and/or in such other circumstances as specified by the NGCC.

**ANNEXURE TO NOTICE OF AGM (CONTINUED)**

As the Company may provide money(ies) for purchase of its own shares for the purpose of implementing the 2018 ESOS, the details required under Section 67 read with Rule 16 of the Companies (Share Capital and Debentures) Rules, 2014 are as follows:

- 1) **The class of employees for whose benefit the 2018 ESOS is being implemented and money is being provided for purchase of shares:**

Refer paragraph (c) and (m) in statement above.

- 2) **The particulars of the trustee or employees in whose favor such shares are to be registered:**

The shares shall be registered in the name of the ESOS Trust or trustees will hold equity shares of the Company for and on behalf of the ESOS Trust.

- 3) **The particulars of ESOS Trust and name, address, occupation and nationality of trustees and their relationship with the promoters, directors or key managerial personnel:**

Name of the ESOS Trust proposed to be established pursuant to consent of the members of the Company for formulation and implementation of 2018 ESOS: Dr. Reddy's Employees ESOS Trust

Address of the ESOS Trust: 8-2-337, Road No.3, Banjara Hills, Hyderabad-500034, Telangana, India

All the trustees are presently employees of the Company. None of the trustees and their respective relatives are related to promoters, directors or key managerial personnel of the Company. The particulars of the trustees of the proposed ESOS Trust are given in the Table 1.

- 4) **Any interest of key managerial personnel, directors or promoters in such 2018 ESOS or ESOS Trust and effect thereof:**

Directors and key managerial personnel may be deemed to be interested to the extent of their qualifying as eligible

employees and/or in respect of the options against equity shares/ADRs as may be offered to them under the 2018 ESOS.

- 5) **The detailed particulars of benefits which will accrue to the employees from the implementation of the 2018 ESOS:**

Upon exercise of stock options, the eligible employees, will be entitled to such number of equity shares/ADRs of the Company as determined by NGCC, at a pre-determined exercise price as per the terms of grant.

- 6) **Details about who would exercise and how the voting rights in respect of the shares to be subscribed/purchased under the 2018 ESOS would be exercised:**

The SEBI SBEB Regulations provide that the trustee(s) of an ESOS Trust, which is governed under the SEBI Regulations, shall not vote in respect of the shares held by such ESOS Trust, so as to avoid any misuse arising out of exercising such voting rights.

Accordingly, the resolution set as Item Nos. 6, 7, 8 and 9 are being placed for the approval of the members pursuant to the provisions of the Companies Act, 2013 and SEBI SBEB Regulations and all other applicable provisions of law for the time being in force.

The Board recommends the resolution nos. 6, 7, 8 and 9 of the Notice for approval of the members.

None of the directors, promoters, independent directors of the Company and their relatives are concerned or interested, financially or otherwise, in the resolution set out at item nos. 6, 7, 8 and 9 of the notice. Mr. Saumen Chakraborty, President and Chief Financial Officer and Mr. Sandeep Poddar, Company Secretary being key managerial personnel are interested in the resolution, to the extent the stock options may be granted to them as employees of the Company.

**Table 1: Particulars of the trustees of the proposed ESOS Trust are given below:**

Sl. No.	Name	Address	Occupation	Nationality
1)	Ms. Archana Bhaskar	Dr. Reddy's Laboratories Limited 8-2-337, Road No.3, Banjara Hills, Hyderabad-500 034, Telangana, India	Service	Indian
2)	Mr. M V Narasimham	Dr. Reddy's Laboratories Limited 8-2-337, Road No.3, Banjara Hills, Hyderabad-500 034, Telangana, India	Service	Indian
3)	Mr. Sujit Mahato	Dr. Reddy's Laboratories Limited 8-2-337, Road No.3, Banjara Hills, Hyderabad-500 034, Telangana, India	Service	Indian
4)	Mr. Y Kiran	Dr. Reddy's Laboratories Limited 8-2-337, Road No.3, Banjara Hills, Hyderabad-500 034, Telangana, India	Service	Indian
5)	Mr. Vikas Sabharwal	Dr. Reddy's Laboratories Limited 8-2-337, Road No.3, Banjara Hills, Hyderabad-500 034, Telangana, India	Service	Indian

## ANNEXURE TO NOTICE OF AGM (CONTINUED)

## ITEM NO. 10

The board, on the recommendation of the Audit Committee, has approved the reappointment of M/s. Sagar & Associates, cost accountants, as cost auditors at a remuneration of ₹ 700,000/- (Rupees Seven Lakhs) per annum plus out of pocket expenses, at actuals and applicable taxes, to conduct the audit of the cost records of the Company for the financial year ending 31 March 2019.

In accordance with the provisions of the Section 148 of the Companies Act 2013, read with the Companies (Audit and Auditors) Rules, 2014, the remuneration payable to the cost auditors has to be ratified by the members of the Company.

Accordingly, consent of the members is sought for passing an ordinary resolution as set out at item no.10 of the notice for

ratification of the remuneration payable to the cost auditors for the financial year ending 31 March 2019.

None of the directors, key managerial personnel and their relatives are, in any way, concerned or interested, financially or otherwise, in this resolution.

The board recommends the resolution set forth in item no. 10 of the notice for approval of the members.

By order of the board

Place : Hyderabad  
Date : 23 June 2018

**Sandeep Poddar**  
Company Secretary

## INSTRUCTIONS FOR E-VOTING

Dear Member,

Pursuant to the provisions of Section 108 of the Companies Act, 2013, rule 20 of the Companies (Management and Administration) Rules, 2014 as substituted by the Companies (Management and Administration) Amendment Rules, 2015 and regulation 44 of the Listing Regulations, the Company is pleased to provide remote e-voting facility to members to cast their vote on all resolutions set forth in the notice convening the 34th annual general meeting (AGM) to be held on Friday, 27 July 2018 at 9.30 am. The Company has engaged the services of National Securities Depository Limited (NSDL) to provide the remote e-voting facility. The facility of casting the votes by the members using an electronic voting system from a place other than the venue of the AGM is termed as 'remote e-voting'.

The remote e-voting facility is available at the link [www.evoting.nsdl.com](http://www.evoting.nsdl.com). The e-voting event number (EVEN) and period of remote e-voting are set out below:

EVEN	Commencement of remote e-voting	End of remote e-voting
108555	Monday, 23 July 2018 at 9.00 am IST	Thursday, 26 July 2018 at 5.00 pm IST

Please read the instructions printed below before exercising your vote. These details and instructions form an integral part of the notice of the AGM to be held on 27 July 2018.

### Procedure to vote electronically using NSDL e-voting system

The way to vote electronically on NSDL e-voting system consists of 'Two Steps' which are mentioned below:

Step 1: Log-in to NSDL e-voting system at [www.evoting.nsdl.com/](http://www.evoting.nsdl.com/)

Step 2: Cast your vote electronically on NSDL e-voting system.

### Step 1: How to Log-in to NSDL e-voting website?

1. Visit the e-voting website of NSDL. Open web browser by typing the following URL: [www.evoting.nsdl.com/](http://www.evoting.nsdl.com/) either on a personal computer or on a mobile.
2. Once the home page of e-voting system is launched, click on the icon 'Login' which is available under 'Shareholders' section.
3. A new screen will open. You will have to enter your user ID, your password and a verification code as shown on the screen.

Alternatively, if you are registered for NSDL eservices i.e. IDEAS, you can log-in at <https://eservices.nsdl.com/> with your existing IDEAS log-in. Once you log-in to NSDL eservices after using your log-in credentials, click on e-voting and you can proceed to Step 2 i.e. Cast your vote electronically.

4. Your User ID details are given below:

Manner of holding shares i.e. Demat (NSDL or CDSL) or Physical	Your User ID is
a) For members who hold shares in demat account with NSDL.	8 Character DP ID followed by 8 Digit Client ID. For example if your DP ID is IN300*** and Client ID is 12***** then your user ID is IN300***12*****.
b) For members who hold shares in demat account with CDSL.	16 Digit Beneficiary ID. For example if your Beneficiary ID is 12***** then your user ID is 12*****.
c) For members holding shares in Physical Form.	EVEN Number followed by Folio Number registered with the Company. For example if folio number is A01*** and EVEN is 123456 then user ID is 123456A01***.

## INSTRUCTIONS FOR E-VOTING (CONTINUED)

5. Instructions for retrieving password:
    - a. If you are already registered for e-voting, then you can use your existing password to log-in and cast your vote.
    - b. If you are using NSDL e-voting system for the first time, you will need your 'initial password' which was communicated to you. Details of 'initial password' are given in point c (i) and (ii) below. Once you have your 'initial password', you need to enter the 'initial password' on the log-in page and the system will force you to change your password.
    - c. Initial password:
      - i. If your e-mail ID is registered in your demat account or with the Company, your 'initial password' is communicated to you on your e-mail ID. Trace the e-mail sent to you from NSDL from your mailbox. Open the e-mail and open the attachment which is a .pdf file. Open the .pdf file. The password to open the .pdf file is your 8 digit client ID for NSDL account, last 8 digits of client ID for CDSL account or folio number for shares held in physical form. The .pdf file contains your 'User ID' and your 'initial password'.
      - ii. If your e-mail ID is not registered, your 'initial password' is communicated to you at your postal address.
  6. If you are unable to retrieve or have not received the 'initial password' or have forgotten your password:
    - a. If you are holding shares in your demat account with NSDL or CDSL, click on 'Forgot User Details/Password' option available on [www.evoting.nsdl.com](http://www.evoting.nsdl.com).
    - b. If you are holding shares in physical mode, click on 'Physical User Reset Password' option available on [www.evoting.nsdl.com](http://www.evoting.nsdl.com).
    - c. If you are still unable to get the password by aforesaid two options, you can send a request at [evoting@nsdl.co.in](mailto:evoting@nsdl.co.in) mentioning your demat account number/folio number, your PAN, your name and your registered address.
  7. After entering your password, click on 'Agree to Terms and Conditions' by selecting on the check box.
  8. Now you will have to click on 'Log-in' button.
  9. After you click on the 'Log-in' button, home page of e-voting will open.
- Step 2: How to cast your vote electronically on NSDL e-voting system?**
1. After successful log-in at Step 1, you will be able to see the home page of e-voting. Click on e-voting. Then, click on 'Active Voting Cycles'.
  2. After clicking on Active Voting Cycles, you will be able to see all the companies 'EVEN' (E-voting Event Number) in which you are holding shares and whose voting cycle is in active status.
  3. Select 'EVEN' of 'Dr. Reddy's Laboratories Limited'. The Cast Vote page will open.
  4. Now you are ready for e-voting as the voting page opens.
  5. Cast your vote by selecting your favoured option i.e. assent/dissent, verify/modify the number of shares for which you wish to cast your vote and click on 'Submit' and also 'Confirm' when prompted.
  6. Upon confirmation, the message 'Vote cast successfully' will be displayed.
  7. You can also take the printout of the votes cast by you by clicking on the print option on the confirmation page.
  8. Once you confirm your vote on the resolution, you will not be allowed to modify your vote.
- General Instructions:**
- a) The remote e-voting period commences on Monday, 23 July 2018 (9.00 am IST) and ends on Thursday, 26 July 2018 (5.00 pm IST). During this period, members of the Company, holding shares either in physical form or in dematerialized form, as on the cut-off date of Friday, 20 July 2018, may cast their votes electronically. The remote e-voting module shall be disabled by NSDL for voting thereafter. Once the vote on a resolution is cast by the member, the member shall not be allowed to change it subsequently or cast the vote again.
  - b) Any person, who acquires shares of the Company and becomes a member of the Company after dispatch of the notice of AGM and holds shares as on the cut-off date i.e. Friday, 20 July 2018, may obtain user ID and password by sending a request at [evoting@nsdl.co.in](mailto:evoting@nsdl.co.in). However, if you are already registered with NSDL for e-voting, then you can use your existing user ID and password for casting your vote. If you forget your password, you can reset the password by using 'forgot user details/password?' or 'physical user reset password?' option available on [www.evoting.nsdl.com](http://www.evoting.nsdl.com) or contact NSDL at the following tollfree no.: 1800-222-990.
  - c) The members who have cast their vote by remote e-voting prior to the AGM may also attend the AGM but shall not be entitled to cast their vote again.
  - d) The facility for voting through electronic voting system/ballot paper shall be made available at the AGM venue and the members attending the AGM who have not cast their vote by remote e-voting shall be able to exercise their right at the AGM venue through electronic voting system/ballot paper. Members who have not cast their vote electronically, by remote e-voting, may only cast their vote at the AGM through electronic voting system/ballot paper.
  - e) The voting rights of shareholders shall be in proportion to the shares held by them, of the paid-up equity share capital of the Company as on the cut-off date of Friday, 20 July 2018.

## INSTRUCTIONS FOR E-VOTING (CONTINUED)

- f) Mr. G Raghu Babu, partner of M/s. R & A Associates, practising company secretary, Hyderabad (membership no. FCS 4448 & certificate of practice no. 2820) has been appointed by the board as the scrutinizer to scrutinize the voting and remote e-voting process in a fair and transparent manner.
- g) At the AGM, at the end of discussion on the resolutions on which voting is to be held, the chairman shall, with the assistance of scrutinizer, order voting through electronic means/ballot paper for all those members who are present at the AGM but have not cast their votes electronically using the remote e-voting facility.
- h) Immediately after the conclusion of voting at the AGM, the scrutinizer shall first count the votes cast at the AGM and thereafter unblock the votes cast through remote e-voting in the presence of at least two witnesses not in the employment of the Company. The scrutinizer shall prepare a consolidated scrutinizer's report of the total votes cast in favour or against, if any, not later than three days after the conclusion of the AGM. This report shall be made to the chairman or any other person authorized by the chairman, who shall declare the result of the voting forthwith.
- i) The voting results declared along with the scrutinizer's report shall be placed on the Company's website [www.drreddys.com](http://www.drreddys.com) and the website of NSDL immediately after the declaration of the result by the chairman or a person authorized by the chairman. The results shall also be immediately forwarded to the BSE Ltd., National Stock Exchange of India Ltd. and the New York Stock Exchange Inc.
- j) Institutional shareholders (i.e. other than individuals, HUF, NRI etc.) are required to send scanned copy (PDF/JPG Format) of the relevant board resolution/authority letter etc. with attested specimen signature of the duly authorized signatory(ies) who are authorized to vote, to the scrutinizer by e-mail to [drscrutinizer@gmail.com](mailto:drscrutinizer@gmail.com) with a copy marked to [evoting@nsdl.co.in](mailto:evoting@nsdl.co.in).
- k) It is strongly recommended not to share your password with any other person and take utmost care to keep your password confidential. Login to the e-voting website will be disabled upon five unsuccessful attempts to key in the correct password. In such an event, you will need to go through the 'Forgot User Details/Password?' or 'Physical User Reset Password?' option available on [www.evoting.nsdl.com](http://www.evoting.nsdl.com) to reset the password.
- l) In case of any queries, you may refer the frequently asked questions (FAQs) and e-voting user manual, available at downloads section of [www.evoting.nsdl.com](http://www.evoting.nsdl.com) or call on toll-free no.: 1800-222-990. You can also refer your queries to NSDL through e-mail ID: [evoting@nsdl.co.in](mailto:evoting@nsdl.co.in).

By order of the board

Place : Hyderabad  
Date : 23 June 2018

**Sandeep Poddar**  
Company Secretary

In terms of the requirements of the Secretarial Standards on General Meetings (SS-2) issued by the Institute of Company Secretaries of India, route map for the location of the venue of the 34th annual general meeting is given as under:





**Dr. Reddy's Laboratories Limited**

CIN: L85195TG1984PLC004507

Regd. Office: 8-2-337, Road No. 3, Banjara Hills, Hyderabad 500 034

E-mail ID: shares@drreddys.com Website: www.drreddys.com

34th annual general meeting - Friday, 27 July 2018

**Attendance Slip**

Folio No./DP ID & Client ID:

No. of shares held:

Name and address of  
First/Sole member:

I certify that I am a member/proxy/authorised representative for the member of the company.

I, hereby record my presence at the 34th annual general meeting of the company held on Friday, 27 July 2018 at 9.30 am at The Ballroom, Hotel Park Hyatt, Road No.2, Banjara Hills, Hyderabad - 500 034.

\_\_\_\_\_  
Name of the member/proxy  
(in BLOCK letters)

\_\_\_\_\_  
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 who 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 Laboratories Limited

CIN: L85195TG1984PLC004507  
 Regd. Office: 8-2-337, Road No. 3, Banjara Hills, Hyderabad 500 034  
 E-mail ID: shares@drreddys.com Website: www.drreddys.com  
 34th annual general meeting - Friday, 27 July 2018

### Proxy Form

(Pursuant to section 105(6) of the Companies Act, 2013 and rule 19(3)  
 of the Companies (Management and Administration) Rules, 2014)

Name of the member(s) \_\_\_\_\_

Registered address: \_\_\_\_\_

E-Mail ID: \_\_\_\_\_ Folio No./Client ID: \_\_\_\_\_ DP ID: \_\_\_\_\_

I/We, being member(s) of Dr. Reddy's Laboratories Limited, holding \_\_\_\_\_ shares of the company, hereby appoint:

1. Name: \_\_\_\_\_

Address: \_\_\_\_\_

E-mail ID: \_\_\_\_\_ Signature \_\_\_\_\_

or failing him/her

2. Name: \_\_\_\_\_

Address: \_\_\_\_\_

E-mail ID: \_\_\_\_\_ Signature \_\_\_\_\_

or failing him/her

3. Name: \_\_\_\_\_

Address: \_\_\_\_\_

E-mail ID: \_\_\_\_\_ Signature \_\_\_\_\_

as my/our proxy to attend and vote (on a poll/electronic voting) for me/us and on my/our behalf at the 34th annual general meeting of the Company, to be held on Friday, 27 July 2018 at 9.30 am at The Ballroom, Hotel Park Hyatt, Road No.2, Banjara Hills, Hyderabad - 500 034 and at any adjournment thereof in respect of such resolutions as are indicated below:

Resolution Nos.	Resolutions	Vote (see note d. below) (Please mention no. of shares)		
		For	Against	Abstain
<b>Ordinary Business</b>				
1.	To receive, consider and adopt the financial statements (standalone and consolidated) of the company for the year ended 31 March 2018, including the audited balance sheet as at 31 March 2018 and the statement of profit and loss of the company for the year ended on that date along with the reports of the board of directors and auditors thereon.			
2.	To declare dividend on the equity shares for the financial year 2017-18.			
3.	To reappoint Mr. K Satish Reddy (DIN: 00129701), who retires by rotation, and being eligible offers himself for the reappointment.			
<b>Special Business</b>				
4.	Reappointment of Mr. Anupam Puri (DIN: 00209113) as an independent director in terms of section 149 of the Companies Act, 2013 for a second term of one year.			
5.	Appointment of Mr. Prasad R Menon (DIN: 00005078) as an independent director in terms of section 149 of the Companies Act, 2013 for a term of five years.			
6.	Approval of 'Dr. Reddy's Employees Stock Option Scheme, 2018'.			
7.	Grant of stock options to the employees of the subsidiary company(ies) of the company under 'Dr. Reddy's Employees Stock Option Scheme, 2018'.			
8.	Implementation of the 'Dr. Reddy's Employees Stock Option Scheme, 2018' through Dr. Reddy's Employees ESOS Trust.			
9.	Authorisation to Dr. Reddy's Employees ESOS Trust for secondary acquisition of equity shares for the purpose of stock options.			
10.	To ratify the remuneration payable to cost auditors, M/s. Sagar & Associates, cost accountants for the financial year ending 31 March 2019.			

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2018



Signature of the member(s) \_\_\_\_\_ Signature of the proxyholder(s) \_\_\_\_\_



**Notes:**

- a. Proxy need not be a member of the Company.
- b. The Proxy Form in order to be effective shall be duly filled in and signed by the member(s) across Revenue Stamp and should reach the Company's Registered Office: Dr. Reddy's Laboratories Limited, 8-2-337, Road No. 3, Banjara Hills, Hyderabad 500 034 atleast 48 hours before the commencement of the annual general meeting (i.e. on Wednesday, 25 July 2018 before 9.30 am).
- c. Corporate members intending to send their authorized 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.
- d. It is optional to indicate your preference. If you leave the for, against or abstain column blank against any or all resolutions, your proxy will be entitled to vote in the manner as he/she may think appropriate.







**"We should not settle for anything short of excellence in everything we do in reaching our vision."**

**Dr. K Anji Reddy**



Dr. Reddy's Laboratories Ltd.  
CIN: L85195TG1984PLC004507  
8-2-337, Road No. 3, Banjara Hills,  
Hyderabad 500 034, India

[www.drreddys.com](http://www.drreddys.com)

