DR REDDYS LABORATORIES LTD
Form 6-K
February 26, 2013
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13A-16 OR 15D-16

UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended December 31, 2012

Commission File Number 1-15182

DR. REDDY S LABORATORIES LIMITED

(Translation of registrant s name into English)

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

Hyderabad, Andhra Pradesh 500 034, India

+91-40-49002900

(Address of principal executive office)

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

Form 20-F x Form 40-F ¨

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

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

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

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

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

Yes ¨ No x

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

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QUARTERLY REPORT

Quarter Ended December 31, 2012

Currency of Presentation and Certain Defined Terms

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

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

References to U.S. or United States are to the United States of America, its territories and its possessions. References to India are to the Republic of India. All references to we, us, our, DRL, Dr. Reddy s or the Company shall mean Dr. Reddy s Laboratories Limited and its subsid Reddy s is a registered trademark of Dr. Reddy s Laboratories Limited in India. Other trademarks or trade names used in this Quarterly Report are trademarks registered in the name of Dr. Reddy s Laboratories Limited or are pending before the respective trademark registries. Market share data is based on information provided by IMS Health Inc. (IMS Health), a provider of market research to the pharmaceutical industry, unless otherwise stated.

Except as otherwise stated in this report, all translations from Indian rupees to U.S. dollars are based on the noon buying rate in the City of New York on December 31, 2012 for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York, which was 54.86 per U.S.$1.00. No representation is made that the Indian rupee amounts have been, could have been or could be converted into U.S. dollars at such a rate or any other rate. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

Information contained in our website, www.drreddys.com, is not part of this Quarterly Report and no portion of such information is incorporated herein.

Forward-Looking and Cautionary Statement

IN ADDITION TO HISTORICAL INFORMATION, THIS QUARTERLY REPORT CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THE FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE REFLECTED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH A DIFFERENCE INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN THE SECTION ENTITLED OPERATING AND FINANCIAL REVIEW AND ELSEWHERE IN THIS REPORT. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH REFLECT OUR ANALYSIS ONLY AS OF THE DATE HEREOF. IN ADDITION, READERS SHOULD CAREFULLY REVIEW THE INFORMATION IN OUR PERIODIC REPORTS AND OTHER DOCUMENTS FILED WITH AND/OR FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION (SEC) FROM TIME TO TIME.

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ITEM 1. FINANCIAL STATEMENTS

DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

(in millions, except share and per share data)

Particulars	Note	December 31, 2012 *Unreviewed convenience translation into U.S.$ (See Note 2.d)*	As of December 31, 2012	March 31, 2012
ASSETS				
Current assets				
Cash and cash equivalents	4	U.S.$ 160	8,782	7,379
Other investments	5	264	14,482	10,773
Trade receivables, net		490	26,873	25,339
Inventories	6	422	23,169	19,352
Derivative financial instruments	8	4	234	7
Current tax assets		6	307	584
Other current assets		166	9,103	6,518
Total current assets		**U.S.$ 1,512**	**82,950**	**69,952**
Non-current assets				
Property, plant and equipment	9	U.S.$ 659	36,126	33,246
Goodwill	10	37	2,044	2,208
Intangible assets	11	189	10,392	11,321
Investment in equity accounted investees		8	446	368
Other investments non-current		9	521	
Deferred income tax assets		67	3,672	1,965
Other non-current assets		12	660	417
Total non-current assets		**U.S.$ 982**	**53,861**	**49,525**
Total assets		**U.S.$ 2,494**	**136,811**	**119,477**
LIABILITIES AND EQUITY				
Current liabilities				
Trade payables		U.S.$ 200	10,996	9,502
Derivative financial instruments	8	14	768	1,830
Current income tax liabilities		22	1,223	682
Short-term borrowings	12	355	19,471	15,844
Long-term borrowings, current portion	12	1	31	31
Provisions		40	2,202	1,926
Other current liabilities		274	15,053	13,645
Total current liabilities		**U.S.$ 907**	**49,744**	**43,460**

Non-current liabilities					
Long-term loans and borrowings, excluding current portion	12	U.S.$	316	17,323	16,335
Provisions			1	51	47
Deferred tax liabilities			34	1,854	1,132
Other liabilities			19	1,050	1,059
Total non-current liabilities		**U.S.$**	**370**	**20,278**	**18,573**
Total liabilities		**U.S.$**	**1,276**	**70,022**	**62,033**

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

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

(in millions, except share and per share data)

Particulars	Note	December 31, 2012 *Unreviewed convenience translation into U.S.$ (See Note 2.d)*	As of December 31, 2012	March 31, 2012
Equity				
Share capital		U.S.$ 15	849	848
Equity shares held by a controlled trust		(0)	(5)	(5)
Share premium		387	21,210	20,934
Share based payment reserve		15	810	800
Retained earnings		717	39,314	31,599
Debenture redemption reserve		27	1,503	865
Other components of equity		57	3,108	2,403
Total equity attributable to:				
Equity holders of the Company		U.S.$ 1,217	**66,789**	**57,444**
Non-controlling interests				
Total equity		**U.S.$ 1,217**	**66,789**	**57,444**
Total liabilities and equity		**U.S.$ 2,494**	**136,811**	**119,477**

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

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

(in millions, except share and per share data)

Particulars	Note	Nine months ended December 31,			Three months ended December 31,	
		2012	2012	2011	2012	2011
		Unreviewed convenience translation into U.S.$				
		(See Note 2.d)				
Revenues		U.S.$ 1,510	82,866	70,153	28,651	27,692
Cost of revenues		713	39,133	30,818	13,560	11,117
Gross profit		**U.S.$ 797**	**43,733**	**39,335**	**15,091**	**16,575**
Selling, general and administrative expenses		453	24,862	21,651	8,571	7,679
Research and development expenses		97	5,347	4,170	2,025	1,514
Impairment loss on intangible assets	11	9	507			
Impairment loss on goodwill	10	3	181			
Other (income)/expense, net	13	(15)	(848)	(567)	(233)	(165)
Total operating expenses, net		**U.S.$ 548**	**30,049**	**25,254**	**10,363**	**9,028**
Results from operating activities		**249**	**13,684**	**14,081**	**4,728**	**7,547**
Finance income		20	1,112	862	218	476
Finance expense		(19)	(1,049)	(784)	(314)	(302)
Finance income/(expense), net	14	1	63	78	(96)	174
Share of profit of equity accounted investees, net of income tax		1	79	43	32	26
Profit before income tax		**252**	**13,826**	**14,202**	**4,664**	**7,747**
Income tax expense	19	(50)	(2,759)	(3,367)	(882)	(2,617)
Profit for the period		**U.S.$ 202**	**11,067**	**10,835**	**3,782**	**5,130**
Attributable to:						
Equity holders of the Company		202	11,067	10,835	3,782	5,130
Non-controlling interest						
Profit for the period		**U.S.$ 202**	**11,067**	**10,835**	**3,782**	**5,130**
Earnings per share						
Basic earnings per share of 5/- each	16	U.S.$ 1.19	65.19	63.95	22.27	30.26
Diluted earnings per share of 5/- each	16	U.S.$ 1.18	64.95	63.68	22.20	30.16

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

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

(in millions, except share and per share data)

Particulars	Nine months ended December 31,			Three months ended December 31,	
	2012	2012	2011	2012	2011
	Unreviewed convenience translation into U.S.$				
	(See Note 2.d)				
Profit for the period	**U.S.$ 202**	**11,067**	**10,835**	**3,782**	**5,130**
Other comprehensive income/(loss)					
Changes in fair value of available for sale financial instruments	2	97	19	47	16
Foreign currency translation adjustments	6	344	767	120	432
Effective portion of changes in fair value of cash flow hedges, net	14	753	(5,075)	(463)	(2,530)
Income tax on other comprehensive income	(9)	(488)	1,361	(6)	711
Other comprehensive income/(loss) for the period, net of income tax	**U.S.$ 13**	**706**	**(2,928)**	**(302)**	**(1,371)**
Total comprehensive income for the period attributable to the equity holders of the Company	**U.S.$ 215**	**11,773**	**7,907**	**3,480**	**3,759**
Attributable to:					
Equity holders of the Company	215	11,773	7,907	3,480	3,759
Non-controlling interest					
Total comprehensive income for the period	**U.S.$ 215**	**11,773**	**7,907**	**3,480**	**3,759**

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

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

(in millions, except share and per share data)

Particulars	Share capital Shares	Share capital Amount	Equity shares held by a controlled trust Amount	Share premium Amount	Share based payment reserve Amount	Retained earnings Amount
Balance as of April 1, 2012	**169,560,346**	**848**	**(5)**	**20,934**	**801**	**31,599**
Issue of equity shares on exercise of options	273,649	1		276	(276)	
Share based payment expense					285	
Profit for the period						11,067
Dividend paid (including corporate dividend tax)						(2,714)
Debenture redemption reserve						(638)
Net change in fair value of other investments, net of tax expense of 30						
Foreign currency translation differences, net of tax benefit of 2						
Effective portion of changes in fair value of cash flow hedges, net of tax expense of 460						
Balance as of December 31, 2012	**169,833,995**	**849**	**(5)**	**21,210**	**810**	**39,314**
Convenience translation into U.S.$		**16**	**(0)**	**387**	**15**	**717**
Balance as of April 1, 2011	**169,252,732**	**846**	**(5)**	**20,683**	**730**	**20,391**
Issue of equity shares on exercise of options	291,319	2		234	(230)	
Share based payment expense					238	
Profit for the period						10,835
Dividend paid (including corporate dividend tax)						(2,216)
Debenture redemption reserve						(637)
Net change in fair value of other investments, net of tax expense of 11						
Foreign currency translation differences, net of tax benefit of 33						
Effective portion of changes in fair value of cash flow hedges, net of tax benefit of 1,339						
Balance as of December 31, 2011	**169,544,051**	**848**	**(5)**	**20,917**	**738**	**28,373**

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

(in millions, except share and per share data)

Particulars	Debenture redemption reserve Amount	Fair value reserve Amount	Foreign currency translation reserve Amount	Hedging reserve Amount	Non-controlling interests Amount	Total Amount
Balance as of April 1, 2012	**865**	**30**	**3,737**	**(1,365)**		**57,444**
Issue of equity shares on exercise of options						1
Share based payment expense						285
Profit for the period						11,067
Dividend paid (including corporate dividend tax)						(2,714)
Debenture redemption reserve	638					
Net change in fair value of other investments, net of tax expense of 30		67				67
Foreign currency translation differences, net of tax benefit of 2			346			346
Effective portion of changes in fair value of cash flow hedges, net of tax expense of 460				293		293
Balance as of December 31, 2012	**1,503**	**97**	**4,083**	**(1,072)**		**66,789**
Convenience translation into U.S.$	**27**	**2**	**74**	**(20)**		**1,217**
Balance as of April 1, 2011	**19**	**31**	**2,921**	**374**		**45,990**
Issue of equity shares on exercise of options						6
Share based payment expense						238
Profit for the period						10,835
Dividend paid (including corporate dividend tax)						(2,216)
Debenture redemption reserve	637					
Net change in fair value of other investments, net of tax expense of 11		8				8
Foreign currency translation differences, net of tax benefit of 33			800			800
Effective portion of changes in fair value of cash flow hedges, net of tax benefit of 1,339				(3,735)		(3,735)
Balance as of December 31, 2011	**656**	**39**	**3,721**	**(3,361)**		**51,926**

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

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

(in millions, except share and per share data)

	Nine months ended December 31,		
	2012	2012	2011
	Unreviewed convenience translation into		
Particulars	*U.S.$ (See Note 2.d)*		
Cash flows from operating activities:			
Profit for the period	U.S.$ 202	11,067	10,835
Adjustments for:			
Income tax expense	50	2,759	3,367
Profit on sale of investments	(2)	(105)	(86)
Depreciation and amortization	74	4,055	3,808
Impairment loss on intangible assets	9	507	
Impairment loss on goodwill	3	181	
Allowance for sales returns	21	1,171	881
Allowance for doubtful trade receivables	2	132	62
Inventory write-downs	22	1,228	1,011
(Profit)/loss on sale of property, plant and equipment and intangible assets, net	0	27	(33)
Share of profit of equity accounted investees, net of income tax	(1)	(79)	(43)
Unrealized exchange (gain)/loss, net	(2)	(125)	259
Interest (income)/expense, net	1	63	601
Share based payment expense	5	285	238
Changes in operating assets and liabilities:			
Trade receivables	(9)	(515)	(6,866)
Inventories	(87)	(4,773)	(4,069)
Trade payables	22	1,203	708
Other assets and other liabilities	(61)	(3,321)	1,099
Income tax paid	(55)	(3,019)	(2,459)
Net cash from operating activities	**U.S.$ 196**	**10,741**	**9,313**
Cash flows used in investing activities:			
Expenditures on property, plant and equipment	(92)	(5,069)	(5,049)
Proceeds from sale of property, plant and equipment	1	48	88
Purchase of investments	(275)	(15,083)	(9,280)
Proceeds from sale of investments	204	11,204	7,518
Expenditures on intangible assets	(4)	(226)	(1,705)
Interest received	5	257	44
Net cash used in investing activities	**U.S.$ (162)**	**(8,869)**	**(8,384)**
Cash flows from/(used) in financing activities:			
Interest paid	(10)	(531)	(452)
Proceeds from issuance of equity shares	0	2	6
Proceeds/(repayment) of short term loans and borrowings, net	44	2,440	1,337
Proceeds/(repayment) of long term loans and borrowings, net	(0)	(27)	10,708
Dividend paid (including corporate dividend tax)	(49)	(2,714)	(2,216)

Net cash from/(used) in financing activities	**U.S.$**	**(15)**	**(830)**	**9,383**
Net increase/(decrease) in cash and cash equivalents		19	1,042	10,312
Effect of exchange rate changes on cash and cash equivalents		7	361	615
Cash and cash equivalents at the beginning of the period		135	7,379	5,660
Cash and cash equivalents at the end of the period	**U.S.$**	**160**	**8,782**	**16,587**

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

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in millions, except share and per share data)

1. Reporting Entity

Dr. Reddy s Laboratories Limited (DRL or the parent company), together with its subsidiaries (collectively, the Company), is a leading India-based pharmaceutical company headquartered in Hyderabad, Andhra Pradesh, 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 Andhra Pradesh, India and Cambridge, United Kingdom; its principal manufacturing facilities are located in Andhra Pradesh, India, Himachal Pradesh, India, Cuernavaca-Cuautla, Mexico, Mirfield, United Kingdom, Louisiana, United States, Tennessee, United States and New York, United States; and its principal markets are in India, Russia, the United States, the United Kingdom, Germany, South Africa and Venezuela. The Company s shares trade on the Bombay Stock Exchange and the National Stock Exchange in India and, since April 11, 2001, also on the New York Stock Exchange in the United States. As explained in Note 23 of these unaudited condensed consolidated interim financial statements, during the year ended March 31, 2011, the Company issued bonus debentures. These bonus debentures have been listed on the Bombay Stock Exchange and the National Stock Exchange in India since April 7, 2011.

2. Basis of preparation of financial statements

a) Statement of compliance

These unaudited condensed consolidated interim financial statements as at and for the three and nine months ended December 31, 2012 have been prepared under the historical cost convention on the accrual basis, except for the items that are required to be accounted for at fair value.

These unaudited condensed consolidated interim financial statements are prepared in accordance with IAS 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board. They do not include all of the information required for full annual financial statements and should be read in conjunction with the audited consolidated financial statements and related notes included in the Company s Annual Report on Form 20-F for the fiscal year ended March 31, 2012. These unaudited condensed consolidated interim financial statements were authorized for issuance by the Company s Board of Directors on February 26, 2013.

b) Significant accounting policies

The accounting policies applied by the Company in these unaudited condensed consolidated interim financial statements are the same as those applied by the Company in its audited consolidated financial statements as at and for the year ended March 31, 2012 contained in the Company s Annual Report on Form 20-F.

c) Functional and presentation currency

The unaudited condensed consolidated interim financial statements are presented in Indian rupees, which is the functional currency of the parent company. All financial information presented in Indian rupees has been rounded to the nearest million.

In respect of all non-Indian subsidiaries that operate as marketing arms of the parent company in their respective countries/regions, the functional currency has been determined to be the functional currency of the parent company (i.e., the Indian rupee). The operations of these entities are largely restricted to import of finished goods from the parent company in India, sale of these products in the foreign country and remittance of the sale proceeds to the parent company. The cash flows realized from sale of goods are readily available for remittance to the

parent company and cash is remitted to the parent company on a regular basis. The costs incurred by these entities are primarily the cost of goods imported from the parent company. The financing of these subsidiaries is done directly or indirectly by the parent company. In respect of subsidiaries whose operations are self-contained and integrated within their respective countries/regions, the functional currency has been determined to be the local currency of those countries/regions.

d) Convenience translation

The unaudited condensed consolidated interim financial statements have been prepared in Indian rupees. Solely for the convenience of the reader, the unaudited condensed consolidated interim financial statements as of December 31, 2012 have been translated into United States dollars at the certified foreign exchange rate of U.S.$1 = 54.86, as published by the Federal Reserve Board of Governors on December 31, 2012. No representation is made that the Indian rupee amounts have been, could have been or could be converted into U.S. dollars at such a rate or any other rate. Such convenience translation is unreviewed.

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in millions, except share and per share data)

2. Basis of preparation of financial statements (continued)

e) Use of estimates and judgments

The preparation of unaudited condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these unaudited condensed consolidated interim financial statements, the significant judgments made by management in applying the Company s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the audited consolidated financial statements as at and for the year ended March 31, 2012.

f) Recent accounting pronouncements

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

IFRS 9- Financial instruments

In November 2009, the IASB issued IFRS 9, Financial instruments , which will change the classification and measurement of financial instruments, hedging requirements and recognition of fair value changes. Currently, new requirements have been issued only on the classification and measurement for financial assets and financial liabilities. The standard, along with proposed expansion of IFRS 9 for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment, and hedge accounting, will be applicable for annual periods beginning on or after January 1, 2015, although entities are permitted to adopt earlier. The Company believes that the adoption of IFRS 9 will not have any material impact on its consolidated financial statements.

New standards and amendments on consolidated financial statements and joint arrangements

In May 2011, the IASB issued the following new standards and amendments on consolidated financial statements and joint arrangements:

IFRS 10, Consolidated financial statements .

IFRS 11, Joint arrangements .

IFRS 12, Disclosure of interests in other entities .

IFRS 13, Fair Value Measurement .

IAS 27 (Revised 2011), Separate financial statements , which has been amended for the issuance of IFRS 10 but retains the current guidance on separate financial statements.

IAS 28 (Revised 2011), Investments in associates , which has been amended for conforming changes on the basis of the issuance of IFRS 10 and IFRS 11.

All of the standards mentioned above are effective for annual periods beginning on or after January 1, 2013; earlier application is permitted as long as each of the other standards in this group is also early applied. The Company believes that adoption of IFRS 10, 11 and 12 and IAS 27 (revised 2011) and IAS 28 (revised 2011) will not have any material impact on its consolidated financial statements. With respect to IFRS 13, the Company is evaluating the impact of this new standard on the Company s consolidated financial statements.

IAS-19- Employee benefits

In June 2011, the IASB issued amendments to IAS-19 Employee benefits . The amendments change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the corridor approach permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

These amendments also enhance the disclosure requirements for defined benefit plans by requiring disclosure of information about the characteristics of defined benefit plans and risks that entities are exposed to through participation in those plans.

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in millions, except share and per share data)

2. Basis of preparation of financial statements (continued)

f) Recent accounting pronouncements (continued)

These amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2013, although earlier application is permitted. The Company is evaluating the impact of these amendments on its consolidated financial statements.

IAS-1- Presentation of Financial Statements

In June 2011, the IASB issued amendments to IAS-1 Presentation of financial statements , which amended the standard as follows:

The amended standard requires entities to group items presented in other comprehensive income based on whether they are potentially reclassifiable to profit or loss subsequently i.e., those that might be reclassified and those that will not be reclassified.

The amended standard requires tax associated with items presented before tax to be shown separately for each of the two groups of other comprehensive income items (without changing the option to present items of other comprehensive income either before tax or net of tax).

These amendments are effective for annual periods beginning on or after July 1, 2012, although earlier application is permitted. The Company believes that these amendments will not have any material impact on its consolidated financial statements.

Amendment to IFRS 7- Disclosures- offsetting financial assets and financial liabilities

In December 2011, the IASB issued amendments to IFRS 7 Disclosures offsetting financial assets and financial liabilities . The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement. The amendment is effective for fiscal years beginning on or after January 1, 2013, although earlier application is permitted. The Company is in the process of evaluating the impact of these amendments on its consolidated financial statements.

Amendment to IAS 32- Offsetting financial assets and financial liabilities

In December, 2011, the IASB issued amendments to IAS 32 Offsetting financial assets and financial liabilities . The amendments to IAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of *currently has a legally enforceable right of set-off* and *simultaneous realisation and settlement* . The amendments to IAS 32 are effective for fiscal years beginning on or after January 1, 2014, with retrospective application required. The Company is in the process of evaluating the impact of these amendments on its consolidated financial statements.

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3. Segment reporting

The Chief Operating Decision Maker (CODM) evaluates the Company s performance and allocates resources based on an analysis of various performance indicators by operating segments. The reportable operating segments reviewed by the CODM are as follows:

Global Generics;

Pharmaceutical Services and Active Ingredients (PSAI); and

Proprietary Products.

Global Generics. This segment consists of finished pharmaceutical products ready for consumption by the patient, marketed under a brand name (branded formulations) or as generic finished dosages with therapeutic equivalence to branded formulations (generics). This segment includes the operations of the Company s biologics business.

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

Proprietary Products. This segment involves the discovery of new chemical entities and differentiated formulations for commercialization and out-licensing. The Company s differentiated formulations portfolio consists of new, synergistic combinations and technologies that improve safety and/or efficacy by modifying pharmacokinetics of existing medicines. This segment also involves the Company s specialty pharmaceuticals business, which conducts sales and marketing operations for in-licensed and co-developed dermatology products.

The CODM reviews revenue and gross profit as the performance indicator for all of the above reportable segments. The CODM does not review the total assets and liabilities for each reportable segment.

Information about segments:	**For the nine months ended December 31,**									
	Global Generics		**PSAI**		**Proprietary Products**		**Others**		**Total**	
Segments	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Segment revenues [(1)]	**59,997**	51,847	**20,529**	16,328	**1,082**	784	**1,258**	1,194	**82,866**	**70,153**
Gross profit	**35,697**	33,560	**6,492**	4,663	**982**	647	**562**	465	**43,733**	**39,335**
Selling, general and administrative expenses									24,862	21,651
Research and development expenses									5,347	4,170
Impairment loss on intangible assets									507	
Impairment loss on goodwill									181	
Other (income)/expense, net									(848)	(567)

Results from operating activities	**13,684**	**14,081**
Finance income/(expense), net	63	78
Share of profit of equity accounted investees, net of income tax	79	43
Profit before income tax	**13,826**	**14,202**
Income tax expense	(2,759)	(3,367)
Profit for the period	**11,067**	**10,835**

(1) Segment revenue for the nine months ended December 31, 2012 does not include inter-segment revenues from PSAI to Global Generics, which is accounted for at cost of 4,173 (as compared to 3,567 for the nine months ended December 31, 2011).

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3. Segment reporting (continued)

Information about segments:	**For the three months ended December 31,**									
	Global Generics		**PSAI**		**Proprietary Products**		**Others**		**Total**	
Segments	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Segment revenues [1]	**20,828**	21,287	**7,127**	5,564	**401**	323	**295**	518	**28,651**	**27,692**
Gross profit	**12,576**	14,097	**2,069**	1,928	**371**	270	**75**	280	**15,091**	**16,575**
Selling, general and administrative expenses									8,571	7,679
Research and development expenses									2,025	1,514
Impairment loss on intangible assets										
Impairment loss on goodwill										
Other (income)/expense, net									(233)	(165)
Results from operating activities									**4,728**	**7,547**
Finance income/(expense), net									(96)	174
Share of profit of equity accounted investees, net of income tax									32	26
Profit before income tax									**4,664**	**7,747**
Income tax expense									(882)	(2,617)
Profit for the period									**3,782**	**5,130**

[1] Segment revenue for the three months ended December 31, 2012 does not include inter-segment revenues from PSAI to Global Generics which is accounted for at cost of 1,522 (as compared to 1,394 for the three months ended December 31, 2011).

Analysis of revenue by geography within Global Generics segment:

The CODM reviews the geographical composition of revenues within the Company s Global Generics segment. Accordingly, the geographical revenue information within the Company s Global Generics segment has been provided for the nine and three months ended December 31, 2012 and 2011 with corresponding comparative information.

The following table shows the distribution of the Company s revenues by geography within the Company s Global Generics segment, based on the location of the customers:

	For the nine months ended December 31,	
	2012	**2011**
India	11,079	9,728
North America (the United States and Canada)	26,433	23,157

Russia and other countries of the former Soviet Union	12,389	9,715
Europe	5,886	6,460
Others	4,210	2,787
	59,997	**51,847**

	For the three months ended December 31,	
	2012	**2011**
India	3,718	3,333
North America (the United States and Canada)	9,243	11,114
Russia and other countries of the former Soviet Union	4,380	3,317
Europe	1,931	2,426
Others	1,556	1,097
	20,828	**21,287**

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3. Segment reporting (continued)

An analysis of revenues by key products in the Company s Global Generics segment is given below:

	For the nine months ended December 31,		For the three months ended December 31,	
	2012	2011	2012	2011
Omeprazole	8,517	7,584	3,018	2,552
Nimesulide	3,819	3,019	1,381	828
Ibuprofen	2,564	1,160	674	425
Lansoprazole	2,452	1,806	727	665
Ziprasidone	2,196		603	
Ciprofloxacin	1,867	1,662	668	532
Fondaparinux	1,839	721	678	312
Ketorolac	1,686	1,481	583	430
Tacrolimus	1,602	1,913	501	621
Amoxicillin	1,354	724	564	419
Others	32,101	31,777	11,431	14,503
Total	**59,997**	**51,847**	**20,828**	**21,287**

An analysis of revenues by key products in the Company s PSAI segment is given below:

	For the nine months ended December 31,		For the three months ended December 31,	
	2012	2011	2012	2011
Naproxen	2,548	1,127	902	432
Clopidogrel	2,376	1,723	884	785
Escitalopram oxalate	1,569	1,162	507	384
Atorvastatin	1,260	650	203	205
FFP-Pentylfuranoside	976		298	
Montelukast	940	218	380	109
Rabeprazole	565	468	175	139
Ibandronate sodium	544		11	
Ciprofloxacin	492	509	244	119
Chlorohydrin	461	227	300	65
Others	8,798	10,244	3,223	3,326
Total	**20,529**	**16,328**	**7,127**	**5,564**

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4. Cash and cash equivalents

Cash and cash equivalents consist of:

	As of	
	December 31, 2012	**March 31, 2012**
Cash balances	5	5
Balances with banks	5,240	4,771
Time deposit balances with banks	3,537	2,603
Cash and cash equivalents on the statements of financial position	**8,782**	**7,379**
Bank overdrafts used for cash management purposes		
Cash and cash equivalents in the cash flow statement	**8,782**	**7,379**

Balances with banks included restricted cash of 354 and 181, as of December 31, 2012 and March 31, 2012, which consisted of:

31 as of December 31, 2012 and 30 as of March 31, 2012, representing amounts in the Company s unclaimed dividend and debenture interest account, which are therefore restricted;

103 as of December 31, 2012 and 94 as of March 31, 2012, representing amounts deposited as security for a bond executed for an environmental liability relating to the Company s site in Mirfield, United Kingdom;

8 as of December 31, 2012 and 8 as of March 31, 2012, representing amounts deposited in an escrow account as partial consideration for acquiring an intangible asset;

187 as of December 31, 2012 and 4 as of March 31, 2012, representing amounts deposited in an escrow account pursuant to a research and collaboration arrangement entered into with Um PharmaUji Sdn. Bhd., Malaysia; and

25 as of December 31, 2012 and 45 as of March 31, 2012, representing amounts deposited with banks as security for obtaining bank guarantees.

5. Other investments

Other investments consist of investments in units of mutual funds, equity securities and term deposits (i.e., certificates of deposit having a maturity period exceeding 90 days) with banks. The details of such investments as of December 31, 2012 were as follows:

	Cost	Gain/(loss) recognized directly in equity	Fair value
Investment in units of mutual funds	2,426	103	2,529
Investment in equity securities	315	26	341
Term deposits with banks	12,133		12,133
	14,874	**129**	**15,003**
Less: Current portion			
Investment in units of mutual funds	2,426	103	2,529
Investment in equity securities	3	26	29
Term deposits with banks	11,924		11,924
	14,353	**129**	**14,482**
Non-current portion			
Term deposits with banks	209		209
Investment in equity securities[(1)]	312		312
	521		**521**

(1) Investments made in equity shares of OctoPlus N.V. through open market purchases during the three months ended December 31, 2012. Please refer to Note 26 below for further details.

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5. Other investments (continued)

All of the other investments were current as of March 31, 2012, the details of which are as follows:

	Cost	Gain/(loss) recognized directly in equity	Fair value
Investment in units of mutual funds	2,070	10	2,080
Investment in equity securities	3	22	25
Term deposits with banks	8,668		8,668
	10,741	**32**	**10,773**

6. Inventories

Inventories consist of the following:

	As of	
	December 31, 2012	March 31, 2012
Raw materials	7,739	6,472
Packing material, stores and spares	1,422	1,311
Work-in-process	6,031	4,974
Finished goods	7,977	6,595
	23,169	**19,352**

During the three months and nine months ended December 31, 2012, the Company recorded inventory write-downs of 378 and 1,228, respectively (as compared to 256 and 1,011 for the three months and nine months ended December 31, 2011, respectively). These adjustments were included in cost of revenues. Cost of revenues for the three months and nine months ended December 31, 2012 include raw materials, consumables and changes in finished goods and work in progress recognized in the income statements amounting to 8,982 and 25,624, respectively (as compared to 7,502 and 20,340 for the three months and nine months ended December 31, 2011, respectively). The above table includes inventories amounting to 730 and 766 which are carried at fair value, less cost to sell, as at December 31, 2012 and March 31, 2012, respectively.

7. Hedges of foreign currency risks

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

The Company uses forward contracts, future contracts and option contracts (collectively, derivative contracts) 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 contracts 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 income statement 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 income statement as finance costs immediately.

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

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7. Hedges of foreign currency risks (continued)

In respect of the aforesaid hedges of highly probable forecasted transactions, the Company has recorded, as a component of equity, a net loss of 463 and a net gain of 753 for the three and nine months ended December 31, 2012, respectively (as compared to a net loss of 2,530 and 5,075 for the three and nine months ended December 31, 2011, respectively). The Company also recorded, as part of revenue, a net loss of 560 and 2,290 during the three and nine months ended December 31, 2012, respectively (as compared to a net loss of 1,084 and 880 during the three and nine months ended December 31, 2011, respectively).

The net carrying amount of the Company s hedging reserve as a component of equity before adjusting for tax impact was a loss of 1,197 and 1,950 as of December 31, 2012 and March 31, 2012, respectively.

Hedges of recognized 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 recognized in the income statement. The changes in fair value of these derivative contracts, as well as the foreign exchange gains and losses relating to the monetary items, are recognized as part of net finance costs .

In respect of the aforesaid foreign exchange derivative contracts and the ineffective portion of the derivative contracts designated as cash flow hedges, the Company has recorded, as part of finance costs, a net loss of 822 and 121 for the three and nine months ended December 31, 2012, respectively (as compared to a net loss of 124 and 438 for the three and nine months ended December 31, 2011, respectively).

8. Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments consists of investments in mutual funds, equity and debt securities, trade receivables, certain other assets, cash and cash equivalents, loans and borrowings, trade payables and certain other liabilities. The net carrying amount of all non-derivative financial instruments, as at December 31, 2012, was a net liability of 9,674 (as compared to a net liability of 10,558 as at March 31, 2012). The fair value of all non-derivative financial instruments, as at December 31, 2012, was a net liability of 9,545 (as compared to a net liability of 10,324 as at March 31, 2012).

Derivative financial instruments

The Company is exposed to exchange rate risk, which arises from its foreign exchange revenues and expenses, primarily in U.S. dollars, British pounds sterling, Russian roubles and Euros, and foreign currency debt in U.S. dollars, Russian roubles and Euros. The Company uses forward exchange contracts, futures contracts and option contracts (collectively, derivative contracts) to mitigate its risk of changes in foreign currency exchange rates.

During the three months ended December 31, 2012, the Company entered into cross currency interest rate swaps which had the effect of converting 3,500 of the Company s rupee denominated liability for bonus debentures into a U.S. dollar denominated notional liability. As part of these arrangements, the Company receives interest of 9.25% on 3,500 and pays interest of U.S dollar LIBOR plus margins ranging between 3.34% and 3.38% on the U.S dollar denominated notional liability. These derivatives lower the interest expense of the Company while exposing it to foreign exchange risk on USD / INR exchange rate movements. Further, these derivatives create a notional U.S. dollar denominated liability for the Company which acts as natural hedge against the Company s net U.S. dollar denominated assets.

The net carrying amount and fair value of all derivative financial instruments, as at December 31, 2012, was a net liability of 534 (as compared to a net liability of 1,823 as at March 31, 2012).

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9. Property, plant and equipment

Acquisitions and disposals

During the nine months ended December 31, 2012, the Company acquired assets at an aggregate cost of 5,368 (as compared to a cost of 4,987 and 6,843 for the nine months ended December 31, 2011 and the year ended March 31, 2012, respectively). Assets with a net book value of 52 were disposed of during the nine months ended December 31, 2012 (as compared to 86 and 77 for the nine months ended December 31, 2011 and the year ended March 31, 2012, respectively), resulting in a net loss on disposal of 4 during the nine months ended December 31, 2012 (as compared to net profit of 2 and net loss of 40 for the nine months ended December 31, 2011 and the year ended March 31, 2012, respectively). Depreciation expense for the three months and nine months ended December 31, 2012 was 971 and 2,811, respectively (as compared to 899 and 2,606 for the three months and nine months ended December 31, 2011, respectively).

Government grants

During the years ended March 31, 2012 and 2011, the State of Louisiana approved the Company s application for certain grants associated with construction of a manufacturing facility in the United States amounting to 54 (U.S.$1.1) and 47 (U.S.$1), respectively. As per the terms of these grants, the State of Louisiana placed certain ongoing conditions on the Company, requiring a minimum cost to be incurred and also requiring employment of a minimum number of people. In proportion to the actual cost incurred, the Company has accrued the proportionate share of each grant as a reduction from the carrying value of property, plant and equipment. As at December 31, 2012, the Company received a total amount of 101 (U.S.$2.1) in respect of grants from the State of Louisiana and the Company was in compliance with all the conditions attached to these grants.

Capital commitments

As of December 31, 2012 and March 31, 2012, the Company was committed to spend approximately 2,493 and 2,351, respectively, under agreements to purchase property, plant and equipment. This amount is net of capital advances paid in respect of such purchases.

10. Goodwill

Goodwill arising upon acquisitions is not amortized but tested for impairment annually or more frequently if there are certain internal or external indicators of impairment.

The following table presents the changes in goodwill during the nine months ended December 31, 2012 and 2011 and the year ended March 31, 2012:

	Nine months ended December 31, 2012	Nine months ended December 31, 2011	Year ended March 31, 2012
Opening balance [1]	18,301	18,273	18,273
Effect of translation adjustments	17	36	28
Closing balance [1]	**18,318**	**18,309**	**18,301**

Less: Impairment loss [2] [3]	**(16,274)**	**(16,093)**	**(16,093)**
	2,044	**2,216**	**2,208**

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

(2) The impairment loss of 16,274 includes 16,003 pertaining to the Company s German subsidiary, betapharm Arzneimittel GmbH, which is part of the Company s Global Generics segment.

(3) Based on the business performance and expected cash flows from its business in Italy, the Company carried out an impairment test of Dr. Reddy s SRL s cash-generating unit and recorded an impairment loss of goodwill and an impairment loss on intangible assets amounting to 181 and 10, respectively, during the nine months ended December 31, 2012.

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11. Intangible assets

Acquisitions of intangibles

During the three and nine months ended December 31, 2012, the Company acquired intangible assets at an aggregate cost of 99 and 226, respectively (as compared to a cost of 16 and 124 for the three and nine months ended December 31, 2011, respectively, and 127 for the year ended March 31, 2012).

Amortization expenses for the three and nine months ended December 31, 2012 were 411 and 1,244, respectively (as compared to amortization expenses of 408 and 1,202 for the three months and nine months ended December 31, 2011, respectively).

Impairment losses recorded for the year ended March 31, 2012

During the three months ended March 31, 2012, there were certain significant changes in the German generics pharmaceutical market that were expected to adversely impact the future operations of the Company s German subsidiary, betapharm Arzneimittel GmbH (betapharm). Among other things, there was a reference pricing review which resulted in a reduction of the government mandated price of certain of betapharm s products being sold, and is expected to adversely affect its sales margins. In addition, one of the key SHI funds, Barmer GEK, announced a large sales tender which is expected to cause significant impact on the price realization of some of the key products of betapharm.

As a result of such adverse market developments, the Company reassessed the recoverable amounts of betapharm s product-related intangibles, and that of the cash generating unit which comprises these product-related intangibles and its trademark/brand beta . The recoverable amount of both the product-related intangibles and the betapharm cash generating unit was based on their fair value less costs to sell, which was higher than its value in use. As a result of this re-evaluation, the carrying amount of certain product-related intangibles was determined to be higher than its recoverable amount. Accordingly, an impairment loss of 1,022 for the product related intangibles was recorded for the year ended March 31, 2012.

The above impairment losses relate to the Company s Global Generics segment.

The Company used the discounted cash flow approach to calculate the fair value less cost to sell. The key assumptions considered in the calculation are as follows:

Revenue projections are based on the revised budgets for the fiscal year ending March 31, 2013, based on management s analysis of current orders booked and the actual performance of betapharm during recent months. These projections take into account the expected long term growth rate in the German generics industry.

The net cash flows have been discounted based on a post-tax discount rate ranging from 6.33% to 8.05%.

As at March 31, 2012, the carrying amount of the betapharm cash generating unit consisted of intangibles amounting to 6,294. As at December 31, 2012, the carrying amount of the betapharm cash generating unit consisted of intangibles amounting to 6,146.

Impairment losses recorded for the three months ended September 30, 2012

During the three months ended September 30, 2012, the Company determined that there was a decrease in expected cash flows of a product portfolio forming part of certain product related intangibles primarily due to higher than expected price erosion and increased competition leading to lower volumes. Consequently, the Company reassessed the recoverable amounts of such product-related intangibles using the value in use approach and determined that the carrying amount of such product-related intangibles was higher than its recoverable amount. Accordingly,

an impairment loss of 497 for such product related intangibles was recorded for the three months ended September 30, 2012. The above impairment losses relate to the Company s Global Generics segment.

The pre-tax cash flows have been discounted based on a pre-tax discount rate of 5.52%. As at September 30, 2012, the carrying amount of such product related intangibles after impairment was 1,487. As at December 31, 2012, the carrying amount of such product related intangibles after impairment was 1,396.

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11. Intangible assets (continued)

Distribution and supply agreement with Ceragenix

In November 2007, the Company entered into a Distribution and Supply Agreement with Ceragenix Pharmaceuticals, Inc. and Ceragenix Corporation (collectively, Ceragenix). Under this agreement, the Company made up-front and milestone payments of U.S.$5 and commenced distribution of the dermatological product EpiCeram®, a skin barrier emulsion device, in the United States and its territories. In June 2010, Ceragenix (both entities) filed voluntary petitions under Chapter 11 of the U.S. Bankruptcy Code. On

June 24, 2011 the United States Bankruptcy Court for the District of Colorado permitted Ceragenix to sell the patent rights, certain business assets and intellectual property relating to EpiCeram® to PuraCap Pharmaceutical LLC and to terminate the Company s rights under its Distribution and Supply Agreement with Ceragenix. However, the court ordered Ceragenix to pay U.S.$2.75 to the Company out of the sales proceeds of the above mentioned assets and intellectual property, as compensation for the termination of the Distribution and Supply Agreement. Upon termination of the Distribution and Supply Agreement, the Company de-recognized the asset and recorded a gain of 31 (excess of amount received over the carrying value of the asset as at June 24, 2011) as part of other (income)/loss in the unaudited condensed consolidated interim financial statements during the three months ended June 30, 2011.

Distribution and supply agreement with Promius Pharma LLC

On March 31, 2011, the Company, through its wholly owned subsidiary Promius Pharma LLC, entered into an agreement with Coria Laboratories Limited (a subsidiary of Valeant Pharmaceuticals International, Inc.) (Coria) for the right to manufacture, distribute and market its Cloderm® (clocortolone pivalate 0.1%) product in the United States. Cloderm® is a cream used for treating dermatological inflammation, and is an existing U.S. FDA approved product. In addition to acquiring all relevant U.S. FDA product regulatory approvals and intellectual property rights (other than trademarks) associated with the Cloderm® product, the Company also acquired an underlying raw material supply contract and an exclusive license to use the trademark Cloderm® for a period of 8 years. The rights and ownership of this trademark will be transferred from Coria to the Company at the end of the 8th year, subject to payment of all royalties under the contract by the Company. Consideration for this transaction included an upfront payment of 1,605 (U.S.$36) in cash and contingent consideration in the form of a royalty equal to 4% of the Company s net sales of Cloderm® in the United States during the 8 year trademark license period.

Since the integrated set of assets acquired as part of this transaction does not meet the definition of a business, the acquisition has been recorded as a purchase of an integrated set of complementary intangible assets with similar economic useful lives. Furthermore, contingent payments associated with future sales have also been considered as an element of cost, as they are directly associated with the acquisition of absolute control over the product related intangibles and do not relate to any substantive future activities either by the Company or Coria. Accordingly, an amount of 171 (U.S.$4) has been recorded as management s best estimate of the present value for the royalty payments over the 8 year trademark license period.

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12. Loans and borrowings

Short term loans and borrowings

The Company had net short term borrowings of 19,471 as of December 31, 2012, as compared to 15,844 as of March 31, 2012. The borrowings consist primarily of packing credit loans drawn by the parent company and other unsecured loans drawn by its subsidiaries in Germany and the United States.

Short term borrowings consist of the following:

	As of	
	December 31, 2012	**March 31, 2012**
Packing credit foreign currency borrowings	13,725	9,322
Other foreign currency borrowings	5,746	5,641
Borrowings on transfer of receivables		881
	19,471	**15,844**

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

	As of			
	December 31, 2012		**March 31, 2012**	
	Currency	**Interest Rate**	**Currency**	**Interest Rate**
Packing credit foreign currency borrowings	USD	LIBOR + 75 to 120 bps	USD	LIBOR + 100 to 150 bps
	EURO	LIBOR + 95 to 125 bps		
		EURIBOR + 125 bps		
	RUB	8% to 8.65%		
Other foreign currency borrowings	USD	LIBOR + 100 bps	USD	LIBOR + 125 bps
	EURO	EURIBOR + 110 bps	EURO	EURIBOR + 135 bps
			RUB and VEF	8.35% to 20%
Borrowings on transfer of receivables			RUB	7.75%

Borrowings on transfer of receivables

From time to time, the Company enters into receivables transfer arrangements with various banks, in which the Company transfers its short term trade receivables in return for obtaining short term funds. As part of these transactions, the Company provides the applicable bank with credit indemnities over the expected losses of those receivables. Since the Company retains substantially all of the risks and rewards of ownership of the trade receivables, including the contractual rights to the associated cash flows, the Company continues to recognize the full carrying amount of the receivables and recognizes the cash received in respect of the transaction as short term borrowings. As of March 31, 2012, the carrying amount of the transferred short-term receivables which were subject to this arrangement was 916 (RUB 530) and the carrying amount of the associated liability was 881 (RUB 509). During the nine months ended December 31, 2012, the Company repaid the entire loan outstanding as at March 31, 2012.

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12. Loans and borrowings (continued)

Long-term borrowings

Long-term loans and borrowings consist of the following:

	As of	
	December 31, 2012	**March 31, 2012**
Foreign currency loan[(1)]	11,967	11,033
Obligations under finance leases	332	291
Bonus debentures[(2)]	5,055	5,042
	17,354	**16,366**
Less: Current portion		
Obligations under finance leases	31	31
	31	**31**
Non-current portion		
Foreign currency loan	11,967	11,033
Obligations under finance leases	301	260
Bonus debentures	5,055	5,042
	17,323	**16,335**

(1) See the details below on the long-term bank loan of the Company s Swiss Subsidiary.
(2) See the details below on the Company s bonus debentures.

Long-term bank loan of Swiss Subsidiary

On September 28, 2011, Dr. Reddy s Laboratories, SA (one of the Company s subsidiaries in Switzerland) (the Swiss Subsidiary), entered into a loan agreement providing for it to borrow the sum of 10,713 (U.S.$220), arranged by Citigroup Global Markets Asia Limited, The Bank Of Tokyo-Mitsubishi Ufj, Ltd., Mizuho Corporate Bank, Ltd., The Bank Of Nova Scotia Asia Limited, Australia and New Zealand Banking Group Limited, and Standard Chartered Bank (Swiss Subsidiary Lenders).

The term of the loan is for sixty months starting from December 31, 2011. The Swiss Subsidiary is required to repay the loan in eight equal quarterly installments commencing at the end of the 39th month and continuing until the end of the 60th month from December 31, 2011. The loan carries an interest rate of U.S. LIBOR + 145 basis points. The parent company has guaranteed all obligations of the Swiss Subsidiary under the loan agreement.

The loan agreement imposes various financial covenants on both the parent company and the Swiss Subsidiary, including, without limitation, the following (each capitalized term below is as defined in the loan agreement):

Net Financial Indebtedness to EBITDA: The Company s ratio of net financial indebtedness to EBITDA shall not at any time exceed 2.3:1.

Secured Debt to Financial Indebtedness: The Company s ratio of secured debt to financial indebtedness shall not at any time exceed 0.2:1. However, if the ratio of net financial indebtedness to EBITDA falls below 1.5:1, the ratio of secured debt to financial indebtedness shall not at any time exceed 0.3:1.

Gearing ratio: The Company s ratio of financial indebtedness to tangible net worth shall not at any time exceed 1:1.

Interest Cover ratio: The Company s ratio of EBITDA to interest payable (in relation to any period of 12 months ending on the last day of any financial year or financial half-year of the Company) shall not at any time be less than 5:1.

Net Worth: The Swiss Subsidiary shall at all times maintain a positive net worth.

The financial computation for each of the foregoing financial covenants shall be calculated on a semi-annual basis by reference to the consolidated financial statements of the Company, except that the Net Worth covenant shall be calculated by reference to financial statements of the Swiss Subsidiary prepared based on IFRS. As of December 31, 2012, the Company was in compliance with the foregoing financial covenants.

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12. Loans and borrowings (continued)

As part of this arrangement, the Company incurred an amount of 182 (U.S.$3.73) in arrangement fees and other administrative charges. The Company accounted for these costs as transaction costs under IAS 39 and they will be amortized over the term of the loan using the effective interest method. The carrying amount of this loan, measured at amortized cost using the effective interest rate method, as on December 31, 2012 and March 31, 2012 was 11,967 and 11,033, respectively.

Issuance of bonus debentures

As explained in Note 23 of these unaudited condensed consolidated interim financial statements, the Company issued unsecured redeemable bonus debentures amounting to 5,078 during the year ended March 31, 2011. In relation to the issuance, the Company incurred directly attributable transaction costs of 51. The bonus debentures do not carry the right to vote or the right to participate in any of the distributable profits or residual assets of the Company, except that the holders of the bonus debentures participate only to the extent of the face value of the instrument plus accrued and unpaid interest thereon. These bonus debentures are mandatorily redeemable at the face value on March 23, 2014 and the Company is obligated to pay the holders of its bonus debentures an annual interest payment equal to 9.25% of the face value thereof on March 24 of each year until (and including upon) maturity. These bonus debentures are measured at amortized cost using the effective interest rate method. The carrying value of these bonus debentures as at December 31, 2012 and March 31, 2012 was 5,055 and 5,042, respectively.

Interest rate profile of long-term debt

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

	As of	
	December 31, 2012	**March 31, 2012**
Foreign currency borrowings	LIBOR + 145 bps	LIBOR + 145 bps
Bonus debentures	9.25%	9.25%

Undrawn lines of credit from bankers

The Company had undrawn lines of credit of 22,075 and 14,290 as of December 31, 2012 and March 31, 2012, respectively, from its banks for working capital requirements. The Company has the right to draw upon these lines of credit based on its requirements.

Non-derivative financial liabilities designated as cash flow hedges

The Company has designated some of its foreign currency borrowings from banks (non-derivative financial liabilities) as hedging instruments for hedge of foreign currency risk associated with highly probable forecasted transactions and accordingly, applies cash flow hedge accounting for such relationships. Re-measurement gain/loss on such non-derivative financial liabilities is recorded in the Company s hedging reserve as a component of equity and re-classified to the income statement as revenue in the period corresponding to the occurrence of the forecasted transactions. The carrying value of such non-derivative financial liabilities as of December 31, 2012 and March 31, 2012 was 12,316 and 11,634, respectively.

13. Other (income)/expense, net

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

	Nine months ended December 31,		Three months ended December 31,	
	2012	**2011**	**2012**	**2011**
Loss/(profit) on sale of property, plant and equipment and intangible assets, net	27	(33)	7	(2)
Sale of spent chemical	(436)	(263)	(172)	(91)
Miscellaneous income	(271)	(279)	(68)	(72)
Provision/(reversal of provision) for expected claim from innovator	(168)	8		
	(848)	**(567)**	**(233)**	**(165)**

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14. Finance income/(expense), net

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

	Nine months ended December 31,		Three months ended December 31,	
	2012	2011	2012	2011
Interest income	668	182	205	147
Foreign exchange gain/(loss)	21	593	(109)	285
Profit on sale of investments	105	86	12	45
Interest expense	(731)	(783)	(204)	(303)
	63	**78**	**(96)**	**174**

15. Share capital and share premium

During the nine months ended December 31, 2012 and 2011, 273,649 and 291,319 equity shares, respectively, were issued as a result of the exercise of vested options granted to employees pursuant to the Dr. Reddy s Employees Stock Option Plan-2002 and Dr. Reddy s Employees Stock Option Plan-2007. During the nine months ended December 31, 2012, options having an exercise price based upon par value of the underlying shares were exercised, with each having an exercise price of 5. The amount of grant date fair value previously recognized for these options has been transferred from share based payment reserve to share premium in the unaudited condensed consolidated statement of changes in equity for the nine months ended December 31, 2012.

16. Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the nine months ended December 31, 2012 was based on the profit attributable to equity holders of 11,067 (as compared to a profit of 10,835 for the nine months ended December 31, 2011) and a weighted average number of equity shares outstanding during the nine months ended December 31, 2012 and 2011, calculated as follows:

	Nine months ended December 31,	
	2012	2011
Issued equity shares as on April 1	169,560,346	169,252,732
Effect of shares issued upon exercise of stock options	197,860	191,067
Weighted average number of equity shares at December 31	169,758,206	169,443,799

The calculation of basic earnings per share for the three month period ended December 31, 2012 was based on the profit attributable to equity holders of 3,782 (as compared to a profit of 5,130 for the three months ended December 31, 2011) and a weighted average number of equity shares outstanding during the three months ended December 31, 2012 and 2011, calculated as follows:

	Three months ended December 31,	
	2012	2011
Issued equity shares as on October 1	169,833,995	169,526,486
Effect of shares issued upon exercise of stock options		9,546
Weighted average number of equity shares at December 31	169,833,995	169,536,032

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16. Earnings per share (continued)

Diluted earnings per share

The calculation of diluted earnings per share for the nine months ended December 31, 2012 was based on the profit attributable to equity holders of 11,067 (as compared to a profit of 10,835 for the nine months ended December 31, 2011) and a weighted average number of equity shares outstanding during the nine months ended December 31, 2012 and 2011, calculated as follows:

	Nine months ended December 31,	
	2012	2011
Weighted average number of equity shares at December 31 (Basic)	169,758,206	169,443,799
Effect of stock options outstanding	635,927	705,139
Weighted average number of equity shares at December 31 (Diluted)	170,394,133	170,148,938

The calculation of diluted earnings per share for the three months ended December 31, 2012 was based on the profit attributable to equity holders of 3,782 (as compared to 5,130 for the three months ended December 31, 2011) and a weighted average number of equity shares outstanding during the three months ended December 31, 2012 and 2011, calculated as follows:

	Three months ended December 31,	
	2012	2011
Weighted average number of ordinary shares at December 31 (Basic)	169,833,995	169,536,032
Effect of stock options outstanding	512,847	565,622
Weighted average number of equity shares at December 31 (Diluted)	170,346,842	170,101,654

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17. 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 September 24, 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 compensation committee of the Board of DRL (the Compensation Committee) administers the DRL 2002 Plan and grants stock options to eligible employees. The Compensation 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 was amended on July 28, 2004 at the annual general meeting of shareholders to provide for stock option grants in two categories:

Category A: 1,721,700 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: 573,778 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).

The DRL 2002 Plan was further amended on July 27, 2005 at the annual general meeting of shareholders to provide for stock option grants in two categories:

Category A: 300,000 stock options out of the total of 2,295,478 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 Compensation Committee may, after obtaining the approval of the shareholders in the annual general meeting, grant options with a per share exercise price other than fair market value and par value of the equity shares.

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 options granted in the above two categories as follows:

Particulars	Number of Options under Category A	Number of Options 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)	505,939	3,843,163	4,349,102

The term of the DRL 2002 plan expired on January 29, 2012. Consequently, the Board of Directors of the Company, based on the recommendation of the Compensation Committee, extended the term of the DRL 2002 plan for a period of 10 years with effect from January 29, 2012, after the approval of shareholders at the Company s Annual General Meeting held on July 20, 2012.

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17. Employee stock incentive plans (continued)

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 July 27, 2005. The DRL 2007 Plan became effective upon its approval by the Board of Directors on January 22, 2007. The DRL 2007 Plan covers all employees of DRL and its subsidiaries and directors (excluding promoter directors) of DRL and its subsidiaries (collectively, eligible employees). The Compensation Committee administers the DRL 2007 Plan and grants stock options to eligible employees. The Compensation 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 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).

Aurigene Discovery Technologies Ltd. Employee Stock Option Plan 2003 (the Aurigene ESOP Plan):

Aurigene Discovery Technologies Limited (Aurigene), a consolidated subsidiary, adopted the Aurigene ESOP Plan to provide for issuance of stock options to employees of Aurigene and its subsidiary, Aurigene Discovery Technologies Inc., who have completed one full year of service with Aurigene or its subsidiary. Aurigene has reserved 4,550,000 of its ordinary shares for issuance under this plan. Under the Aurigene ESOP Plan, stock options may be granted at an exercise price as determined by Aurigene s compensation committee. The options issued under the Aurigene ESOP Plan vest in periods ranging from one to three years, including certain options which vest immediately on grant, and generally have a maximum contractual term of three years.

During the year ended March 31, 2008, the Aurigene ESOP Plan was amended to increase the total number of options reserved for issuance to 7,500,000 and to provide for Aurigene s recovery of the Fringe Benefit Tax from employees upon the exercise of their stock options.During the three months ended September 30, 2011, the Company cancelled 1,009,090 stock options which were fully vested and outstanding under the Aurigene ESOP Plan, upon surrender of options by the employees, and the Aurigene ESOP Plan was closed by a resolution of the shareholders. Accordingly, no stock options were outstanding under the Aurigene ESOP Plan as at December 31, 2012.

Stock option activity during the period

The terms and conditions of the grants made during the nine months ended December 31, 2012 under the above plans were as follows:

Particulars	Number of instruments	Exercise price	Vesting period	Contractual life
DRL 2002 Plan:				

Category A				
Category B	335,110	5.00	1 to 4 years	5 years
DRL 2007 Plan:				
Category A				
Category B	58,140	5.00	1 to 4 years	5 years
Aurigene ESOP Plan:				

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17. Employee stock incentive plans (continued)

The terms and conditions of the grants made during the nine months ended December 31, 2011 under the above plans were as follows:

Particulars	Number of instruments	Exercise price	Vesting period	Contractual life
DRL 2002 Plan:				
Category A				
Category B	262,520	5.00	1 to 4 years	5 years
DRL 2007 Plan:				
Category A				
Category B	56,060	5.00	1 to 4 years	5 years
Aurigene ESOP Plan:				

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

	Nine months ended December 31,	
	2012	2011
Expected volatility	23.61%	28.92%
Exercise price	5.00	5.00
Option life	2.5 Years	2.42 Years
Risk-free interest rate	8.21%	8.34%
Expected dividends	0.81%	0.70%
Grant date share price	1,697.65	1,598.57

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

Share-based payment expense

For the nine months ended December 31, 2012 and 2011, amounts of 285 and 238, respectively, and for the three months ended December 31, 2012 and 2011, amounts of 104 and 85, respectively, have been recorded as total employee share based expense under all employee stock incentive plans. As of December 31, 2012, there was approximately 471 of total unrecognized compensation cost related to unvested stock options. This cost is expected to be recognized over a weighted-average period of 2.96 years.

18. Employee benefit plans

Gratuity benefits

In accordance with applicable Indian laws, the Company provides for gratuity, a defined benefit retirement plan (the Gratuity Plan) covering certain categories of employees. The Gratuity Plan provides a lump sum payment to vested employees at retirement or termination of employment. The amount of payment is based on the respective employee s last drawn salary and the years of employment with the Company. Effective September 1, 1999, the Company established the Dr. Reddy s Laboratories Gratuity Fund (the Gratuity Fund). 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 specific securities as mandated by law and generally consist of federal and state government bonds and debt instruments of government-owned corporations.

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18. Employee benefit plans (continued)

The components of net periodic benefit cost for the nine months ended December 31, 2012 and 2011 are as follows:

	Nine months ended December 31,	
	2012	**2011**
Service cost	69	64
Interest cost	45	39
Expected return on plan assets	(41)	(27)
Recognized net actuarial (gain)/loss	5	9
Net amount recognized	**78**	**85**

The components of net periodic benefit cost for the three months ended December 31, 2012 and 2011 are as follows:

	Three months ended December 31,	
	2012	**2011**
Service cost	23	22
Interest cost	15	13
Expected return on plan assets	(14)	(9)
Recognized net actuarial (gain)/loss	2	3
Net amount recognized	**26**	**29**

Pension, seniority and severance plan

All employees of the Company s subsidiary in Mexico, Industrias Quimicas Falcon de Mexico S.A. de C.V. (Falcon), are entitled to a pension benefit in the form of a defined benefit plan. The Falcon pension plan provides for payment to vested employees at retirement or termination of employment. This payment is based on the employee s integrated salary and is paid in the form of a monthly pension over a period of 20 years computed based on a pre-defined formula. Liabilities in respect of the pension plan are determined by an actuarial valuation, based upon 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.

Falcon also provides its employees with termination benefits in the form of seniority premiums, paid from a funded defined benefit plan covering certain categories of employees, and severance pay, paid from an unfunded defined benefit plan applicable to the employees who are terminated from the services of Falcon.

The components of net periodic benefit cost for the nine months ended December 31, 2012 and 2011 are as follows:

	Nine months ended December 31,	
	2012	**2011**
Service cost	18	15
Interest cost	19	22
Expected return on plan assets	(15)	(21)
Recognized net actuarial (gain)/loss	5	7
Net amount recognized	**27**	**23**

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18. Employee benefit plans (continued)

The components of net periodic benefit cost for the three months ended December 31, 2012 and 2011 are as follows:

	Three months ended December 31,	
	2012	**2011**
Service cost	6	5
Interest cost	6	8
Expected return on plan assets	(5)	(7)
Recognized net actuarial (gain)/loss	2	3
Net amount recognized	**9**	**9**

Long service benefit recognitions

During the year ended March 31, 2010, the Company introduced a new post-employment defined benefit scheme under which all eligible employees of the parent company who have completed the specified service tenure with the Company would be eligible for a Long Service Cash Award at the time of their employment separation. The amount of such cash payment would be based on the respective employee s last drawn salary and the specified number of years of employment with the Company. Accordingly, the Company has valued the liability through an independent actuary.

The components of net periodic benefit cost for the nine months ended December 31, 2012 and 2011 are as follows:

	Nine months ended December 31,	
	2012	**2011**
Service cost	7	7
Interest cost	5	4
Expected return on plan assets		
Recognized net actuarial (gain)/loss		
Net amount recognized	**12**	**11**

The components of net periodic benefit cost for the three months ended December 31, 2012 and 2011 are as follows:

	Three months ended December 31,	
	2012	**2011**
Service cost	2	3
Interest cost	2	2

Expected return on plan assets		
Recognized net actuarial (gain)/loss		
Net amount recognized	**4**	**5**

19. Income taxes

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

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19. Income taxes (continued)

The Company s consolidated weighted average tax rates for the nine months ended December 31, 2012 and 2011 were 20% and 23.7%, respectively. Income tax expense was 2,759 for the nine months ended December 31, 2012, as compared to income tax expense of 3,367 for the nine months ended December 31, 2011. The decrease in effective tax rate by 3.7% for the nine months ended December 31, 2012 as compared to the nine months ended December 31, 2011 was primarily on account of a decrease in the Company s effective tax rate by approximately 5% on account of a deferred tax asset created on deductible temporary differences arising from unrealized inter-company profits on inventory held by the Company in higher tax jurisdictions. As per the requirements of IFRS, the Company is required to create a deferred tax asset in respect of unrealized inter-company profit arising on inventory held by the Company at the end of the applicable reporting period by applying the tax rate of the jurisdiction in which the inventory is held. Such decrease was partially offset by an increase in the Company s effective tax rate by approximately 1.7% on account of impairment of product intangibles and goodwill for the nine months ended December 31, 2012.

The Company s consolidated weighted average tax rates for the three months ended December 31, 2012 and 2011 were 18.9% and 33.8%, respectively. Income tax expense was 882 for the three months ended December 31, 2012, as compared to income tax expense of 2,617 for the three months ended December 31, 2011. The decrease in effective tax rate by 14.9% for the three months ended December 31, 2012 as compared to the three months ended December 31, 2011 was primarily on account of the following:

- realization of a deferred tax asset during the three months ended December 31, 2011 arising from deductible temporary differences created in respect of unrealized intercompany profit arising in prior quarters on inventories held by the Company in higher tax jurisdictions; and

- during the three months ended December 31, 2011, a higher proportion of the Company s profits were taxed in jurisdictions with higher tax rates, primarily on account of sales of certain products in the United States during periods of 180 day market exclusivity.

Total tax expenses recognized directly in the equity for the three and nine months ended December 31, 2012 amounted to 6 and 488, respectively (as compared to tax benefits for the three and nine months ended December 31, 2011 amounting to 711 and 1361, respectively). Such tax expenses were primarily due to the tax effects of the Company s foreign exchange gain on its cash flow hedges. Refer to Note 7 of these unaudited condensed consolidated interim financial statements for further details on cash flow hedges.

There are certain income-tax related legal proceedings that are pending against the Company. Potential liabilities, if any, have been adequately provided for, and the Company does not currently estimate any material incremental tax liability in respect of these matters.

20. Acquisition of Non-controlling Interests

Dr. Reddy s Laboratories (Australia) Pty. Limited

During the year ended March 31, 2010, the Company entered into an agreement with Biogenerics Australia Pty. Limited for the acquisition of their non-controlling interest in Dr. Reddy s Laboratories (Australia) Pty. Limited (DRLA). The total purchase consideration was 37 (AUD 1), which included an amount of 25 (AUD 0.6) contingent upon DRLA achieving certain sales targets on or before December 31, 2010 or upon the listing of a certain number of products under the Pharmaceutical Benefit Scheme in Australia by March 31, 2012.

During the year ended March 31, 2011, DRLA did not achieve the sales milestone upon which the consideration of 14 was contingent. Furthermore, DRLA did not achieve the milestone pertaining to the listing of products under the Pharmaceutical Benefit Scheme by the end of

March 31, 2012 upon which a balance consideration of 11 was contingent. In accordance with requirements of IFRS 3 (2008), the Company has recorded these changes in contingent consideration as a part of other (income)/expense in its consolidated income statements for the years ended March 31, 2011 and 2012.

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21. Related parties

The Company has entered into transactions with the following related parties:

Green Park Hotel and Resorts Limited (formerly known as Diana Hotels Limited) for hotel services;

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

Dr. Reddy s Foundation for Human and Social Development towards contributions for social development;

Institute of Life Science towards contributions for social development;

Ecologics Technologies Limited for providing analytical services;

Stamlo Hotels Private Limited for hotel services; and

Dr. Reddy s Laboratories Gratuity Fund.

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

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

The following is a summary of significant related party transactions:

	Nine months ended December 31,		Three months ended December 31,	
Particulars	**2012**	**2011**	**2012**	**2011**
Purchases from significant interest entities	960	651	341	244
Sales to significant interest entities	584	372	266	153
Contribution to a significant interest entity towards social development	126	98	48	28
Lease rental paid under cancellable operating leases to key management personnel and their relatives	22	23	7	8
Hotel expenses paid	15	12	7	4

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

Particulars	Nine months ended December 31, 2012	Nine months ended December 31, 2011	Three months ended December 31, 2012	Three months ended December 31, 2011
Salaries	164	147	32	33
Contribution to defined contribution plans	11	9	4	3
Commission*	248	225	83	74
Share-based payments	35	47	13	16
Total	**458**	**428**	**132**	**126**

* Accrued based on profit as of the applicable date in accordance with the terms of employment.

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

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21. Related parties (continued)

The Company had the following amounts due from related parties:

Particulars	As at December 31, 2012	As at March 31, 2012
Significant interest entities	240	214
Key management personnel	5	5

The Company had the following amounts due to related parties:

Particulars	As at December 31, 2012	As at March 31, 2012
Significant interest entities	93	95

22. Disclosure of Expense by Nature

The below tables disclose the details of expenses incurred by their nature for the nine months ended December 31, 2012 and 2011, respectively.

Particulars	Nine months ended December 31, 2012			
	Cost of revenues	Selling, general and administrative expenses	Research and development expenses	Total
Employee benefits*	5,239	8,855	971	15,065
Depreciation and amortization	2,161	1,616	278	4,055

Particulars	Nine months ended December 31, 2011			
	Cost of revenues	Selling, general and administrative expenses	Research and development expenses	Total
Employee benefits*	4,447	7,056	941	12,444
Depreciation and amortization	1,945	1,584	279	3,808

The below tables disclose the details of expenses incurred by their nature for the three months ended December 31, 2012 and 2011, respectively.

Particulars	Three months ended December 31, 2012			
	Cost of revenues	Selling, general and administrative	Research and development	Total

		expenses	expenses	
Employee benefits*	1,785	3,048	332	5,165
Depreciation and amortization	753	536	93	1,382

Particulars	**Three months ended December 31, 2011**			
	Cost of revenues	**Selling, general and administrative expenses**	**Research and development expenses**	**Total**
Employee benefits*	1,537	2,498	313	4,348
Depreciation and amortization	674	540	92	1,306

* Employee benefits include all forms of consideration given by an entity in exchange for services rendered by employees.

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23. Bonus Debentures

On March 31, 2010, the Company s Board of Directors approved a scheme for the issuance of bonus debentures (in-kind , i.e., for no cash consideration) to its shareholders to be effected by way of capitalization of its retained earnings. The scheme was subject to the successful receipt of necessary approvals of the Company s shareholders, the High Court of Andhra Pradesh, India and other identified regulatory authorities as mentioned in the scheme. All necessary approvals to effectuate the scheme, including that of the High Court, were received during the year ended March 31, 2011. Accordingly, on March 24, 2011, the Company issued these debentures to the shareholders of the Company.

The following is a summary of the key terms of the issuance:

Particulars	No. of instruments issued	Face value	Currency	Interest Rate	Maturity	Aggregate Face Amount	Redemption price
Unsecured, non-convertible, redeemable debentures	1,015,516,392	5 each	(Indian rupee)	9.25% per annum	36 months	5,078	5 each (plus interest)

The following is a summary of certain additional terms of the issuance:

Fully paid up bonus debentures carrying a face value of 5 each were issued to the Company s shareholders in the ratio of 6 bonus debentures for each equity share held by such shareholders on March 18, 2011.

The bonus debentures are unsecured and are not convertible into equity shares of the Company.

The Company delivered cash in the aggregate value of the bonus debentures into an escrow account of a merchant banker in India appointed by the Company s Board of Directors. The merchant banker received such amount for and on behalf of and in trust for the shareholders who are entitled to receive bonus debentures. Upon receipt of such amount, the merchant banker paid the amount to the Company, for and on behalf of the shareholders as consideration for the allotment of debentures to them.

These bonus debentures have a maturity of 36 months, at which time the Company must redeem them for cash in an amount equal to the face value of 5 each, plus any unpaid interest, if any.

These bonus debentures carry an interest rate of 9.25% per annum. The interest on the debentures shall be paid at the end of 12, 24 and 36 months from the date of issuance.

These bonus debentures are listed on stock exchanges in India so as to provide liquidity for the holders.

Issuance of these bonus debentures is treated as a deemed dividend under section 2(22)(b) of the Indian Income Tax Act, 1961 and accordingly, the Company is required to pay a dividend distribution tax.

Under Indian Corporate Law and as per the terms of the approved bonus debenture scheme, the Company created a statutory reserve (the Debenture Redemption Reserve) in which it is required to deposit a portion of its profits made during each year prior to the maturity date of the bonus debentures until the aggregate amount retained in such reserve equals 50% of the face value of the debentures then issued and outstanding. The funds in the Debenture Redemption Reserve shall be used only to redeem the debentures for so long as they are issued and outstanding.

The Company has accounted for the issuance of such debentures as a pro-rata distribution to the owners acting in the capacity as owners on a collective basis. Accordingly, the Company has measured the value of such financial instrument at fair value on the date of issuance which corresponds to the value of the bonus debentures issued on March 24, 2011. The Company has disclosed the issuances as a reduction from retained earnings in the consolidated statement of changes in equity with a corresponding credit to loans and borrowings for the value of the financial liability recognized. Furthermore, in relation to the above mentioned scheme, the Company incurred costs of 51 in directly attributable transaction costs payable to financial advisors. This amount was accounted for as a reduction from debenture liability on the date of issuance of the bonus debentures and is being amortized over a period of three years using the effective interest rate method. The associated cash flows for the delivery of cash to the merchant banker and the subsequent receipt of the same for and on behalf of the shareholders upon issuance of the bonus debentures was disclosed separately in the unaudited consolidated statement of cash flows as part of financing activities.

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23. Bonus debentures (continued)

Further, the dividend distribution tax paid by the Company on behalf of the owners in the amount of 843 has been recorded as part of a reduction from retained earnings in the audited consolidated statement of changes in equity for the year ended March 31, 2011. The Company transferred 638, 846 and 19 from the profits earned during the nine months ended December 31, 2012, the year ended March 31, 2012 and the year ended March 31, 2011, respectively, into the Debenture Redemption Reserve and recorded the transfer through the statement of changes in equity.

The regulatory framework in India governing issuance of ADRs by an Indian company does not permit the issuance of ADRs with any debt instrument (including non-convertible rupee denominated debentures) as the underlying security. Therefore, the depositary of the Company s ADRs (the Depositary) cannot issue depositary receipts (such as ADRs) with respect to the bonus debentures issued under the Company s bonus debenture scheme. Therefore, in accordance with the deposit agreement between the Company and the Depositary, the bonus debentures issuable in respect of the shares underlying the Company s ADRs were distributed to the Depositary, which sold such bonus debentures on April 8, 2011. The Depositary converted the net proceeds from such sale into U.S. dollars and, on June 23, 2011, distributed such U.S. dollars, less any applicable taxes, fees and expenses incurred and/or provided for under the deposit agreement, to the registered holders of ADRs entitled thereto in the same manner as it would ordinarily distribute cash dividends under the deposit agreement.

24. Contingencies

Litigations, etc.

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

Although there can be no assurance regarding the outcome of any of the legal proceedings or investigations referred to in this Note, the Company does not expect them to have a materially adverse effect on its financial position, as it believes that possibility of loss in excess of amounts accrued (if any) is less than likely. However, if one or more of such proceedings were to result in judgments against the Company, such judgments could be material to its results of operations in a given period.

Product and patent related matters

Norfloxacin 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 Government of India has the authority to designate a pharmaceutical product as a specified product and fix the maximum selling price for such product. In 1995, the Government of India issued a notification and designated Norfloxacin as a specified product and fixed the maximum selling price. In 1996, the Company filed a statutory Form III before the Government of India for the upward revision of the maximum selling price and a writ petition in the Andhra Pradesh High Court (the High Court) challenging

the validity of the designation on the grounds that the applicable rules of the DPCO were not complied with while fixing the maximum selling price. The High Court had previously granted an interim order in favor of the Company; however it subsequently dismissed the case in April 2004. The Company filed a review petition in the High Court in April 2004 which was also dismissed by the High Court in October 2004. Subsequently, the Company appealed to the Supreme Court of India, New Delhi (the Supreme Court) by filing a Special Leave Petition, which is currently pending.

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24. Contingencies (continued)

Norfloxacin litigation (continued)

During the year ended March 31, 2006, the Company received a notice from the Government of India demanding the recovery of the price charged by the Company for sales of Norfloxacin in excess of the maximum selling price fixed by the Government of India, amounting to 285 including interest thereon. 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 Government of India, which amounted to 77. The Company deposited this amount with the Government of India 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. Additionally in November 2010, the High Court allowed the Company s application to include additional legal grounds that the Company believes will strengthen its defense against the demand. For example, the Company has added as grounds that trade margins should not be included in the computation of amounts overcharged, and that it is necessary for the Government of India to set the active pharmaceutical ingredient price before the process of determining the ceiling on the formulation price. Based on its best estimate, the Company has recorded a provision for the potential liability related to the principal and interest amount demanded under the aforesaid order and believes that possibility of any liability that may arise on account of penalty on this demand is remote. In the event the Company is unsuccessful in its litigation in the Supreme Court, it will be required to remit the sale proceeds in excess of the notified selling prices to the Government of India with interest and including penalties, if any, which amounts are not readily ascertainable.

Fexofenadine United States litigation

In April 2006, the Company launched its fexofenadine hydrochloride 30 mg, 60 mg and 180 mg tablet products, which are generic versions of Sanofi-Aventis (Aventis) Allegra® tablets. The Company is presently defending patent infringement actions brought by Aventis and Albany Molecular Research (AMR) in the United States District Court for the District of New Jersey. By September 2009, nine patents (three formulation patents, three methods of use patents, and three synthetic process patents) had been asserted against the Company.

In June 2010, Aventis and AMR obtained a preliminary injunction prohibiting the Company from launching a fexofenadine pseudoephedrine product generically equivalent to Allegra-D 24® Tablets until a trial regarding one process patent (U.S.patent number 7,390,906) could be conducted. As a condition for grant of the injunction, the District Court ordered Aventis to post a bond of $40 to reimburse the Company for its lost revenue in the event that it prevailed at trial. The security posted shall remain in place until further order of the District Court. Pending the final outcome of the case, the Company has not recorded any asset in its unaudited condensed consolidated interim financial statements in connection with this product in the United States.

On January 28, 2011, the District Court dissolved the injunction after adopting a claim construction adverse to the plaintiff s infringement case for U.S. patent number 7,390,906. Aventis and AMR have filed an appeal of the District Court s claim construction for the U.S. patent number 7,390,906 and for a second process patent, U.S. patent number 5,750,703. Aventis has withdrawn its complaints regarding the seven other patents originally asserted against the Company.

In January 2013, the Company entered into a settlement agreement with Aventis and AMR. Under the terms of this agreement, which are otherwise confidential, the Company will continue to sell its fexofenadine products. In accordance with applicable U.S. law, the settlement agreement has been submitted to the U.S. Federal Trade Commission and Department of Justice for review.

Olanzapine, Canada litigation

The Company supplies certain generic products, including olanzapine tablets (the generic version of Eli Lilly s Zyprexa® tablets) to Pharmascience, Inc. for sale in Canada. Several generic pharmaceutical manufacturers have challenged the validity of the Zyprexa® patents in Canada. In June 2007, the Canadian Federal Court held that the invalidity allegation of one such challenger, Novopharm Ltd., was justified and denied Eli Lilly s request for an order prohibiting sale of the product. Eli Lilly responded by suing Novopharm for patent infringement. Eli Lilly also sued Pharmascience for patent infringement, but that litigation was dismissed after the parties agreed to be bound by the final outcome in the Novopharm case. As reflected in Eli Lilly s regulatory filings, the settlement allows Pharmascience to market olanzapine tablets subject to a contingent damages obligation should Eli Lilly be successful in its litigation against Novopharm. The Company s agreement with Pharmascience includes a provision under which the Company shares a portion of all cost and expense incurred as a result of settling lawsuits or paying damages that arise as a consequence of selling the products.

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24. Contingencies (continued)

Olanzapine, Canada litigation (continued)

During October 2009, the Canadian Federal Court decided, in the Novopharm case, that Eli Lilly s patent for Zyprexa was invalid. This decision was, however, reversed in part by the Canadian Federal Court of Appeal on July 21, 2010 and remanded for further consideration. In November 2011, the Canadian Federal Court again found the Eli Lilly Zyprexa patent invalid. This decision was upheld by the Canadian Federal Court of Appeal on September 10, 2012. On November 8, 2012, Eli Lilly filed an application for leave to appeal with Supreme Court of Canada. Pending resolution of such appeal, the Company continues to sell the product to Pharmascience and remains exposed to potential damages in an amount that may equal the Company s profit share derived from sale of the product.

Ibandronate Sodium United States litigation

In June 2012, the Company launched its ibandronate sodium 150 mg tablet product, which is a generic version of Boniva® tablets, which are marketed and distributed by Genentech USA, Inc., a member of the Roche Group.

The Company is defending several patent infringement actions brought by Hoffmann-La Roche Inc. and Genentech Inc. (collectively, Roche) in the United States District Court for the District of New Jersey with respect to this product. These actions first commenced in September 2007 and over time expanded to claim infringement of four patents one formulation patent (U.S. patent number 6,294,196) and three method of use patents (numbers 7,192,938, 7,410,957 and 7,718,634). Claims regarding U.S. patent numbers 6,294,196 and 7,192,938 were dismissed in December 2008 and April 2010, respectively.

With the 30-month stay having elapsed and the compound patent, U.S. patent number 4,927,814, having expired on March 17, 2012, Roche filed a motion to obtain a preliminary injunction on February 11, 2012. The Company chose not to oppose the motion and the parties agreed to a Stipulation and Preliminary Injunction Order on February 21, 2012. On May 7, 2012, the Court granted the Company s motion for summary judgment that U.S. patent number 7,718,634 was invalid. In June 2012, the preliminary injunction order was vacated and the Company launched its ibandronate sodium 150 mg tablets product. On October 1, 2012, the Court granted summary judgment in the Company s favor finding U.S. patent number 7,410,957 invalid.

On November 15, 2012, the Court issued a final judgment in favor of the Company. Roche filed a motion for reconsideration on November 16, 2012 which was denied by the Court on January 25, 2013. Roche has appealed both of the Court s summary judgment decisions. If Roche is ultimately successful in their allegations of patent infringement, the Company could be required to pay damages related to its sale of ibandronate sodium 150 mg tablets.

Nexium United States litigations

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

The complaints allege that, beginning in 2005, AstraZeneca sued various generic manufacturers, including the Company, for infringement with respect to patents purporting to cover AstraZeneca s branded drug, Nexium.

Plaintiffs allege that AstraZeneca s settlement agreements with these various generic manufacturers, including the Company, violated federal and state antitrust laws, as well as state unfair competition laws. The complaints seek unspecified damages for class members as a result of an alleged delay in the entry of generic versions of Nexium.

The Company believes that each of these complaints lacks merit and that the Company s conduct complied with all applicable laws and regulations.

Environmental matter

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 Bollarum areas of Medak district 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, Bollarum and Jeedimetla areas for discharging effluents which damaged the farmers agricultural land. The compensation was fixed at 1.30 per acre for dry land and 1.70 per acre for wet land. Accordingly, the Company has paid a total compensation of 3. The matter is pending in the courts and the Company believes that the possibility of additional liability is remote. The Company would not be able to recover the compensation paid, even if the decision of the court is in favor of the Company.

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24. Contingencies (continued)

Environmental matter (continued)

Water pollution and air pollution

During the three months ended December 31, 2011, the Company, along-with 14 other companies, received a notice from the Andhra Pradesh Pollution Control Board (APP Control Board) to show cause as to why action should not be initiated against them for violations under the Indian Water Pollution Act and the Indian Air Pollution Act. Furthermore, the APP Control Board issued orders to the Company to (i) stop production of all new products at the Company s manufacturing facilities in Hyderabad, India without obtaining a Consent for Establishment , (ii) not manufacture products at such facilities in excess of certain quantities specified by the APP Control Board and (iii) furnish a bank guarantee (similar to a letter of credit) totaling to 12.5.

The Company appealed the APP Control Board orders to the Andhra Pradesh Pollution Appellate Board (the APP Appellate Board). The APP Appellate Board first stayed the APP Control Board orders and subsequently modified the orders, permitting the Company to file applications for Consents for Establishment and to increase the quantities of existing products which could be manufactured beyond that permitted by the APP Control Board, while requiring the Company not to manufacture new products at the specified facilities without the permission of the APP Control Board. The APP Appellate Board also reduced the total value of the Company s bank guarantee required by the APP Control Board to 6.25.

The Company has challenged the jurisdiction of APP Control Board in imposing restrictions on manufacturing both with respect to the quantity and the products mix, stating that the Drug Control Authority and the Industrial Development and Regulation Authority are the bodies legally empowered to license production of drug varieties and their quantities respectively.

A fact finding committee (APP Committee) was constituted by the APP Appellate Board and was ordered to visit and report on the pollution control measures adopted by the Company. Pursuant to such orders, the APP Committee visited the Company premises in April 2012 and filed its report with the APP Appellate Board on June 23, 2012.

In the first week of July 2012, the APP Control Board has issued further show cause notices and requests for further information to some of the manufacturing companies located around Hyderabad and Visakhapatnam. The Company has also been requested to provide additional data and information and it has complied with the same.

After considering the report filed by the APP Committee, the APP Appellate Board passed its order on October 20, 2012 in favor of the Company and observed that pollution load has to be determined on the basis of the level of effluents after treatment, and not at the time of generation. The APP Appellate Board set a three month time frame for the state government to make a decision on the proposal made by the pharmaceutical manufacturing industry to reconsider the state executive orders with respect to a ban on manufacture of pharmaceutical products beyond the approved quantities. The state government has not yet issued its decision.

Indirect taxes related matters

Assessable value of products supplied by a vendor to the Company

During the year ended March 31, 2003, the Central Excise Authorities of India issued a demand notice to a vendor of the Company regarding the assessable value of products supplied by this vendor to the Company. The Company has been named as a co-defendant in this demand notice.

The Central Excise Authorities demanded payment of 176 from the vendor, including penalties of 90. Through the same notice, the Central Excise Authorities issued a penalty claim of 70 against the Company. During the year ended March 31, 2005, the Central Excise Authorities issued an additional notice to this vendor demanding 226 from the vendor, including a penalty of 51. Through the same notice, the Central Excise Authorities issued a penalty claim of 7 against the Company. Furthermore, during the year ended March 31, 2006, the Central Excise Authorities issued an additional notice to this vendor demanding 34. The Company has filed appeals against these notices. In August and September 2006, the Company attended the hearings conducted by the Customs, Excise and Service Tax Appellate Tribunal (the CESTAT) on this matter. In October 2006, the CESTAT passed an order in favor of the Company setting aside all of the above demand notices. In July 2007, the Central Excise Authorities appealed against CESTAT s order in the Supreme Court of India, New Delhi. The matter is pending in the Supreme Court of India, New Delhi.

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24. Contingencies (continued)

Indirect taxes related matters (continued)

Distribution of input service tax credits

During the year ended March 31, 2010, the Central Excise Commissioner issued a show cause notice to the Company by objecting to the Company s methodology of distributing input service tax credits claimed for one of the Company s facilities during the period from March 2008 to September 2009, and demanded an amount of 102 along with interest and penalties. During the year ended March 31, 2012, the Central Excise Commissioner confirmed the show cause notice and passed an order demanding an amount of 102 along with a 100% penalty and interest thereon. The Company has filed an appeal with the CESTAT against the Central Excise Commissioner s order and awaits a hearing before the CESTAT.

During the year ended March 31, 2012, the Central Excise Commissioner issued an additional show cause notice to the Company demanding an amount of 125 along with interest and penalties pertaining to the Company s methodology of distributing input service tax credits claimed for one of the Company s facilities for the period from October 2009 to March 2011. The Company had responded to such show cause notice. In October 2012, the Central Excise Commissioner confirmed the show cause notice and passed an order demanding an amount of 125 along with penalties of 100. The Company has filed an appeal with the CESTAT against the Central Excise Commissioner s order and awaits a hearing before the CESTAT.

In October 2012, the Central Excise Commissioner issued a third show cause notice to the Company demanding an amount of 51 along with interest and penalties pertaining to the Company s methodology of distributing input service tax credits claimed for one of the Company s facilities for the period from April 2011 to March 2012. The Company has responded to such show cause notice and is currently awaiting a hearing with the Central Excise Commissioner.

Fuel Surcharge Adjustments

The Andhra Pradesh Electricity Regulatory Commission (the APERC) passed various orders approving the levy of Fuel Surcharge Adjustment (FSA) charges for the period from April 1, 2008 to June 30, 2012 by power distribution companies from all the consumers of electricity in the state of Andhra Pradesh, India where our headquarters and principal manufacturing facilities are located. The Company filed separate Writs of Mandamus before the High Court of Andhra Pradesh (the High Court) challenging and questioning the validity and legality of this levy of FSA charges by the APERC for various periods.

Tabulated below is the present position of writ petitions filed by the Company challenging FSA charges levied for the applicable fiscal period.

Fiscal period	Present position
Year ended March 31, 2009	On June 5, 2010, the APERC determined and approved the levy of FSA charges for the period from April 1, 2008 to March 31, 2009. On July 29, 2011, the Division Bench of the High Court set aside the APERC order. Subsequently, the power distribution companies appealed to the Supreme Court of India by filing a special leave petition, which is currently pending.
Year ended March 31, 2010	On January 17, 2012, the APERC determined and approved the levy of FSA charges for the period from April 1, 2009 to March 31, 2010. On September 26, 2012, the Division Bench of the High Court set aside the APERC order and the same is

	now pending for consideration before the Full Bench of the High Court.
Years ended March 31, 2011 and 2012	On September 20, 2012, the APERC determined and approved the levy of FSA charges for the period from April 1, 2010 to March 31, 2012. The writ petitions filed by the Company were admitted by the High Court and the hearing is deferred until the disposal of previous petitions pending before the Full Bench of the High Court. Further, the High Court in its order dated December 4, 2012 noted that the power distribution companies had filed their claims for the period from July 1, 2010 to March 31, 2012 within the prescribed period, which they had not done for earlier periods, including the period from April 1, 2010 to June 30, 2010. Accordingly, the High Court granted a stay on collection of FSA charges for the period from April 1, 2010 to June 30, 2010 but refused to grant the same for the period from July 1, 2010 to March 31, 2012.
Three months ended June 30, 2012	On November 2, 2012, the APERC determined and approved the levy of FSA charges for the period from April 1, 2012 to June 30, 2012. The Company has filed a writ petition on February 4, 2013 before the High Court challenging the aforesaid APERC order.

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24. Contingencies (continued)

Fuel Surcharge Adjustments (continued)

Based on the orders from the High Court dated December 4, 2012, the Company has re-evaluated the possible outcome of the various writ petitions filed by it. Accordingly, the Company, after taking into account all of the available information and legal provisions, has recorded an amount of 221 as the potential liability towards FSA charges for the period from April 1, 2008 to December 31, 2012. The total amount approved by APERC for collection by the power distribution companies from the Company in respect of FSA charges for the period from April 1, 2008 to June 30, 2012 is approximately 422. As of December 31, 2012, the Company has made payments under protest of 27 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.

Other

Additionally, the Company and its affiliates are involved in other disputes, lawsuits, claims, governmental and/or regulatory inspections, inquiries, investigations and proceedings, including patent and commercial matters that arise from time to time in the ordinary course of business. The Company does not believe that there are any such pending matters that will have any material adverse effect on its financial position, results of operations or cash flows in any given accounting period.

25. Letter from the U.S. Food and Drug Administration

The Company s Mexico facility produces intermediates and active pharmaceutical ingredients (API) and steroids. During the month of November 2010, the U.S. FDA inspected the Company s Mexico facility and issued audit observations relating to the process for manufacture of API and steroids, to which the Company responded by agreeing to implement certain corrective actions. Subsequently, on June 3, 2011, the Company received a warning letter from the U.S. FDA seeking further clarifications and corrective actions on some of the prior audit observations to which the Company had previously responded. Thereafter, on June 28, 2011, the U.S. FDA posted an import alert, or Detention without Physical Examination (DWPE), on its website for certain specified products manufactured at the Mexico facility. Further details of the warning letter and the DWPE alert are available on the U.S. FDA website.

As a consequence of the DWPE alert, the Company s Mexico facility was unable to export some API and steroids, with the exemption of naproxen and naproxen sodium, to U.S. customers until such time as the concerns raised by the U.S. FDA in their warning letter were addressed to their satisfaction and the DWPE alert was lifted. The Company subsequently worked collaboratively with the U.S. FDA to resolve the matters contained in the warning letter. The Company s Mexico facility was re-inspected by the U.S. FDA in March 2012 and issued two inspectional observations in Form FDA 483. The Company sent the U.S. FDA a timely response to the two remaining observations.

On July 26, 2012, the Company received a letter from the U.S. FDA indicating that they were satisfied with the corrective actions taken by the Company s Mexico facility and that the DWPE alert has been lifted. Accordingly, the Company has started importing products that were subject to the DWPE alert to the U.S from this facility.

26. Tender Offer for Shares of OctoPlus

On October 22, 2012, the Company announced its intended public offer to acquire all of the outstanding equity shares of OctoPlus N.V. (Euronext Amsterdam: OCTO) (OctoPlus), a service based specialty pharmaceutical company for 0.52 per share, or a total consideration of 27.39. On December 14, 2012, the Company announced the public offer which ended on February 8, 2013.

As of December 31, 2012, the Company had acquired 15.67% of the total equity shares of OctoPlus through open market purchases and recorded the same as other non-current investment.

As of February 8, 2013, when the offer period ended, a total of 70.66% of the equity shares were tendered under the offer, the settlement of which was made by the Company on February 15, 2013. In addition, the Company acquired a total of 22.52% of the equity shares through open market purchases. Accordingly, the Company holds 93.18% of the total equity shares of OctoPlus as of February 21, 2013. The Company is in the process of allocating the total consideration paid to various assets and liabilities acquired.

Shareholders holding the remaining equity shares can tender their shares during a post acquisition offer period that ends on February 26, 2013.

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in millions, except share and per share data)

27. Subsequent events

Devaluation of Venezuelan currency

The Company s Venezuela operations are primarily restricted to the import by Dr. Reddy s Venezuela, S.A. of pharmaceutical products from the parent company for the purpose of supply in the local market of Venezuela.

On February 8, 2013, the Foreign Exchange Administration Commission of Venezuela (commonly referred to as the CADIVI) enacted a decree (exchange agreement No. 14) through Official Gazette No. 40,108 to devalue the Venezuelan Bolívar (VEF) exchange rate from 4.3 VEF per U.S. dollar to 6.3 VEF per U.S. dollar. However, there are exemptions which permit the use of the pre-devaluation rate of 4.3 VEF per U.S. dollar for transactions meeting certain conditions, including the following:

The sale of foreign currency by the Central Bank of Venezuela (BCV) for an autorización de liquidación de divisas (ALD) (a) which has been delivered by CADIVI to the BCV and received by the latter by February 8, 2013, (b) which is valid and in force and effect by that date, and (c) in respect of which the actual payment has not been requested by the relevant authorized exchange operator to the BCV by that date.

The sale of foreign currency by the BCV for an autorización de adquisición de divisas (AAD) which was approved by CADIVI after October 15, 2012 and before February 8, 2013, and provided that an ALD is subsequently granted by the CADIVI.

The Company is exposed to the foreign exchange loss on account of devaluation of its receivables and other net monetary assets denominated in VEF. However, the Company has various ALDs and AADs pending which are expected to result in the application of pre-devaluation exchange rates, and to largely offset the aforesaid foreign exchange loss.

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ITEM 2. OPERATING AND FINANCIAL REVIEW, TREND INFORMATION

The following discussion and analysis should be read in conjunction with the audited consolidated financial statements, the related cash flow statements and notes, and the Operating and Financial Review and Prospects included in our Annual Report on Form 20-F for the fiscal year ended March 31, 2012, all of which is on file with the SEC (collectively, our 2012 Form 20-F) and the unaudited condensed consolidated interim financial statements contained in this report on Form 6-K and the related statement of cash flow and notes.

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

Section A:

Three months ended December 31, 2012 compared to the three months ended December 31, 2011

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

	Three months ended December 31, 2012		Three months ended December 31, 2011 (in Millions)		
	Amount	% of Revenues	Amount	% of Revenues	Increase/ (Decrease)
Revenues	28,651	100%	27,692	100%	3%
Gross profit	**15,091**	**53%**	**16,575**	**60%**	**(9%)**
Selling, general and administrative expenses	8,571	30%	7,679	28%	12%
Research and development expenses	2,025	7%	1,514	5%	34%
Other (income)/expense, net	(233)	(1%)	(165)	(1%)	41%
Results from operating activities	**4,728**	**17%**	**7,547**	**27%**	**(37%)**
Finance income/(expense), net	(96)	0%	174	(1%)	
Share of profit of equity accounted investees, net of income tax	32	0%	26	0%	23%
Profit before income taxes	**4,664**	**16%**	**7,747**	**28%**	**(40%)**
Income tax (expense)/benefit, net	(882)	(3%)	(2,617)	(9%)	(66%)
Profit for the period	**3,782**	**13%**	**5,130**	**19%**	**(26%)**

Revenues

Our overall consolidated revenues were 28,651 million for the three months ended December 31, 2012, an increase of 3% as compared to 27,692 million for the three months ended December 31, 2011.

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

	Three months ended December 31,				
	2012		2011		
	in Millions				
	Revenues	Revenues % to Total	Revenues	Revenues % to Total	Increase/ (Decrease)
Global Generics	20,828	73%	21,287	77%	(459)
Pharmaceutical Services and Active Ingredients	7,127	25%	5,564	20%	1,563
Proprietary Products	401	1%	323	1%	78

Others	296	1%	518	2%	(222)
Total	**28,651**	**100%**	**27,692**	**100%**	**960**

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Segment Analysis

Global Generics

Revenues from our Global Generics segment were 20,828 million for the three months ended December 31, 2012, a decrease of 2% as compared to 21,287 million for the three months ended December 31, 2011. This segment s revenues for the three months ended December 31, 2011 include a profit share pursuant to our agreement with Teva Pharmaceutical Industries Ltd. of 4,442 million, attributable to sales of olanzapine 20 Mg tablets in the United States with a 180 days marketing exclusivity. Excluding this impact, revenues from our Global Generics segment increased by 24% for the three months ended December 31, 2012, as compared to the three months ended December 31, 2011. This growth was largely led by revenues from increases in sales volumes and new product launches in North America (the United States and Canada), Russia and our Rest of the World markets (which include South Africa, Venezuela and Australia).

North America: Our Global Generics segment s revenues from North America (the United States and Canada) were 9,243 million for the three months ended December 31, 2012, a decrease of 17% as compared to the three months ended December 31, 2011. In U.S. dollar absolute currency terms (i.e., U.S. dollars without taking into account the effect of currency exchange rates), such revenues decreased by 24% in the three months ended December 31, 2012 as compared to the three months ended December 31, 2011.

Excluding the impact of our profit share from sales of olanzapine in the United States, our Global Generics segment s revenues from North America grew by 39% in the three months ended December 31, 2012 as compared to the three months ended December 31, 2011 and, in U.S. dollar absolute currency terms (i.e., U.S. dollars without taking into account the effect of currency exchange rates), such revenues grew by 32% in the three months ended December 31, 2012 as compared to the three months ended December 31, 2011. This growth was largely attributable to the following:

- market share expansion in key products such as ziprasidone, fondaparinux, tacrolimus, lansoprazole, and in our antibiotics portfolio from our Tennessee facility; and
- revenues from new products launched between January 1, 2012 and December 31, 2012.

According to IMS Health Inc. (November 2012), 31 products in our prescription portfolio were ranked among the top three in their respective market shares.

The following table sets forth, for the three months ended December 31, 2012, the product that we launched in North America (the United States and Canada):

Product	Brand Name	Innovator	Total annual market size
Sildenafil tablets (20 mg)	Revatio®	Pfizer Inc.	$ 0.339 Billion*

* Total annual market size in the United States at the time of our generic launch, as per IMS Health.

We expect to launch a few more key products during the year ending March 31, 2013 and we remain optimistic about the long term growth opportunity in this market.

During the three months ended December 31, 2012, we made four new ANDA filings and, as of December 31, 2012, our cumulative ANDA filings are 193. We now have 65 ANDAs pending approval at the U.S. FDA, of which 35 are Paragraph IV filings and we believe we are the first to file with respect to 8 of these filings.

India: Our Global Generics segment s revenues from India for the three months ended December 31, 2012 were 3,718 million, an increase of 12% as compared to the three months ended December 31, 2011. This revenue increase was driven by increases in sales volumes across existing key products and new product launches. Revenues from our bio-similar portfolio in India for the three months ended December 31, 2012 increased by 27% as compared to the three months ended December 31, 2011. During the three months ended December 31, 2012, we launched 8 new brands in India.

Russia: Our Global Generics segment s revenues from Russia for the three months ended December 31, 2012 were 3,720 million, an increase of 35% as compared to the three months ended December 31, 2011. In Russian rouble absolute currency terms (i.e., Russian roubles without taking into account the effect of currency exchange rates) such revenues grew by 26% in the three months ended December 31, 2012 as compared to the three months ended December 31, 2011. This growth was primarily on account of delayed seasonal sales due to the delayed onset of winter in Russia. During the fiscal year ended March 31, 2012, our seasonal sales were largely in the quarter ended September 30, 2011. Such growth was further aided by launches of new products and growth in our OTC product portfolio.

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Other countries of the former Soviet Union: Our Global Generics segment s revenues from other countries of the former Soviet Union were 661 million for the three months ended December 31, 2012, an increase of 19% as compared to the three months ended December 31, 2011. This increase was primarily on account of volume growth in Kazakhstan, Ukraine and includes the impact of the depreciation in the Indian rupee against multiple currencies of countries of the former Soviet Union.

Germany: Our Global Generics segment s revenues from Germany were 1,280 million for the three months ended December 31, 2012, a decrease of 17% as compared to the three months ended December 31, 2011. In Euro absolute currency terms (i.e., Euro without taking into account the effect of currency exchange rates), such revenues decreased by 19% for the three months ended December 31, 2012 as compared to the three months ended December 31, 2011. This decrease was primarily on account of our reduced participation in the competitive bidding tenders sponsored by statutory health insurance funds and other health insurance providers.

Other countries of Europe: Our Global Generics segment s revenues from our Rest of Europe markets (i.e., all European markets other than Germany, Russia and other countries of the former Soviet Union) were 651 million for the three months ended December 31, 2012, a decrease of 26% as compared to the revenues for the three months ended December 31, 2011. Such decrease was primarily due to a decrease in our out-licensing business.

Other Markets: Our Global Generics segment s revenues from our Rest of the World markets were 1,556 million for the three months ended December 31, 2012, an increase of 42% as compared to the three months ended December 31, 2011. The growth was primarily on account of volume growth in South Africa, Australia and Venezuela, and also includes the impact of depreciation of the Indian rupee against multiple currencies in the markets in which we operate.

On February 8, 2013, the Foreign Exchange Administration Commission of Venezuela (commonly referred to as the CADIVI) enacted a decree (exchange agreement No.14) through Official Gazette No. 40,108 to devalue the exchange rate from 4.3 VEF per U.S. dollar to 6.3 VEF per U.S. dollar. Accordingly, revenues from our operations in Venezuela are likely to decline in the future as they are converted and reported in Indian rupees. However, the total revenues from our Global Generics segment are not expected to be significantly impacted by the aforesaid currency devaluation.

Pharmaceutical Services and Active Ingredients (PSAI)

Our PSAI segment s revenues for the three months ended December 31, 2012 were 7,127 million, an increase of 28% as compared to the three months ended December 31, 2011. This increase was primarily on account of new launches to generic customers on account of patent expirations, higher customer orders in our pharmaceutical services business, and depreciation of the Indian rupee against multiple currencies in the markets in which we operate. In the three months ended December 31, 2012, we filed 13 Drug Master Files (DMFs) worldwide. Cumulatively, our total worldwide DMFs as of December 31, 2012 were 566, including 183 DMFs in the United States.

Gross Profit

Our total gross profit was 15,091 million for the three months ended December 31, 2012, representing 53% of revenues for that period, as compared to 16,575 million for the three months ended December 31, 2011, representing 60% of revenues for that period.

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

	For the three months ended December 31,			
	2012		2011	
	(in Millions)			
	Gross Profit	% of Segment Revenue	Gross Profit	% of Segment Revenue
Global Generics	12,576	60%	14,097	66%
Pharmaceutical Services and Active Ingredients	2,069	29%	1,928	35%
Proprietary Products	371	92%	270	83%
Others	75	25%	280	54%
Total	**15,091**	**53%**	**16,575**	**60%**

Our consolidated gross profits decreased from 60% during the three months ended December 31, 2011 to 53% during the three months ended December 31, 2012. The gross profits from our Global Generics segment decreased from 66% during the three months ending December 31, 2011 to 60% during the three months ending December 31, 2012, primarily on account of the following:

- our gross profits for the three months ended December 31, 2011 included a profit share of 4,442 million from olanzapine sales in the United States during a 180 days marketing exclusivity period (such market exclusivity expired prior to the three months ended December 31, 2012); and
- increased pricing pressures and competition.

The foregoing factors were partially offset by the positive impact of depreciation of the Indian rupee against multiple currencies in the markets in which we operate.

The gross profits from our PSAI segment decreased from 35% during the three months ending December 31, 2011 to 29% during the three months ending December 31, 2012, primarily on account of the following:

- the unfavorable impact of changes in our existing business mix (i.e., a decrease in the proportion of sales of higher gross margin products and an increase in the proportion of sales of lower gross margin products); and
- increased pricing pressure on our key products.

The foregoing factors were partially offset by the positive impact of our improvements in cost management.

Selling, general and administrative expenses

Our selling, general and administrative expenses were 8,571 million for the three months ended December 31, 2012, an increase of 12% as compared to 7,679 million for the three months ended December 31, 2011. The increase was largely on account of increased personnel costs, due to annual raises and new recruitments, and the negative impact of depreciation of the Indian rupee against multiple currencies in the markets in which we operate.

As a proportion of our total revenues, our selling, general and administrative expenses increased from 28% during the three months ended December 31, 2011 to 30% during the three months ended December 31, 2012.

Research and development expenses

Our research and development costs were 2,025 million for the three months ended December 31, 2012, an increase of 34% as compared to 1,514 million for the three months ended December 31, 2011. Our research and development expenses were equal to 7% of our total revenues for the three months ended December 31, 2012. This increase was in accordance with our strategy to expand our research and development activities across targeted business segments.

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Finance income/(expense), net

Our net finance expense was 96 million for the three months ended December 31, 2012 as compared to net finance income of 174 million for the three months ended December 31, 2011. The increase in net finance expense was primarily due to the following:

- net foreign exchange loss of 109 million for the three months ended December 31, 2012, as compared to net foreign exchange gain of 285 million for the three months ended December 31, 2011;
- net interest income of 1 million for the three months ended December 31, 2012, as compared to interest expense of 156 million for the three months ended December 31, 2011; and
- profit on sale of investments of 12 million for the three months ended December 31, 2012, as compared to 45 million for the three months ended December 31, 2011.

Profit before income taxes

As a result of the above, profit before income taxes was 4,664 million for the three months ended December 31, 2012, a decrease of 40% as compared to 7,747 million for the three months ended December 31, 2011.

Income tax expense

Income tax expense was 882 million for the three months ended December 31, 2012, as compared to 2,617 million for the three months ended December 31, 2011.

Our consolidated effective tax rate was 18.9% for the three months ended December 31, 2012, as compared to 33.8% for the three months ended December 31, 2011. The change in the effective tax rate was primarily on account of the following:

- during the three months ended December 31, 2011, our effective tax rate was increased due to the realization of a deferred tax asset arising from deductible temporary differences created in respect of unrealized intercompany profit arising in prior quarters on inventories held by us in higher tax jurisdictions; and
- during the three months ended December 31, 2011, a higher proportion of our profits were taxed in jurisdictions with higher tax rates, primarily on account of sales of certain products in the United States during periods of 180 day market exclusivity.

Profit for the period

As a result of the above, our net income was 3,782 million for the three months ended December 31, 2012, representing 13% of our total revenues for such period, as compared to 5,130 million for the three months ended December 31, 2011, representing 19% of the total revenues for such period.

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Section B:

Nine months ended December 31, 2012 compared to the Nine months ended December 31, 2011

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

	Nine months ended December 31, 2012		Nine months ended December 31, 2011 (in Millions)		
	Amount	% of Revenues	Amount	% of Revenues	Increase/ (Decrease)
Revenues	82,866	100%	70,153	100%	18%
Gross profit	**43,733**	**53%**	**39,335**	**56%**	**11%**
Selling, general and administrative expenses	24,862	30%	21,651	31%	15%
Research and development expenses	5,347	6%	4,170	6%	28%
Impairment loss on intangible assets	507	1%		0%	
Impairment loss on goodwill	181	0%		0%	
Other (income)/expense, net	(848)	(1%)	(567)	(1%)	50%
Results from operating activities	**13,684**	**17%**	**14,081**	**20%**	**(3%)**
Finance income/(expense), net	63	0%	78	0%	(20%)
Share of profit of equity accounted investees, net of income tax	79	0%	43	0%	84%
Profit before income taxes	**13,826**	**17%**	**14,202**	**20%**	**(3%)**
Income tax (expense)/benefit, net	(2,759)	(3%)	(3,367)	(5%)	(18%)
Profit for the period	**11,067**	**13%**	**10,835**	**15%**	**2%**

Revenues

Our overall consolidated revenues were 82,866 million for the nine months ended December 31, 2012, an increase of 18% as compared to 70,153 million for the nine months ended December 31, 2011.

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

	For the nine months ended December 31, 2012		2011 (in Millions)		
	Revenues	Revenues % to Total	Revenues	Revenues % to Total	Increase/ (Decrease)
Global Generics	59,997	72%	51,847	74%	8,150
Pharmaceutical Services and Active Ingredients	20,529	25%	16,328	23%	4,201
Proprietary Products	1,082	1%	784	1%	298
Others	1,258	2%	1,194	2%	64
Total	**82,866**	**100%**	**70,153**	**100%**	**12,713**

Segment Analysis

Global Generics

Revenues from our Global Generics segment were 59,997 million for the nine months ended December 31, 2012, an increase of 16% as compared to 51,847 million for the nine months ended December 31, 2011. This growth was largely led by the key markets of North America (the United States and Canada), India, Russia and our Rest of the World markets (which include South Africa, Venezuela and Australia).

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North America: Our Global Generics segment s revenues from North America (United States and Canada), for the nine months ended December 31, 2012 were 26,433 million, an increase of 14% as compared to 23,157 million for the nine months ended December 31, 2011.

The following table sets forth, for the nine months ended December 31, 2012, products launched in North America:

Product	Brand	Innovator	Total annual market size ($ Billions)
Olanzapine (2.5 mg, 5 mg, 7.5 mg, 10 mg and 15 mg)	Zyprexa®	Eli Lilly	$ 1.74*
OTC lansoprazole, delayed release	Prevacid®24 HR	Takeda Pharmaceuticals	$ 0.115#
Clopidogrel (75 mg, 300 mg)	Plavix®	Sanofi-Aventis	$ 6.74
Ropinirole hydrochloride XR	Requip XL®	SmithKline Beecham Limited	$ 0.06
Ibandronate sodium	Boniva®	Roche Therapeutics Inc	$ 0.49
Atorvastatin calcium tablets (10mg, 20 mg, 40 mg, 80 mg)	Lipitor®	Pfizer Inc	$ 8.07
Montelukast sodium (tablets, chewable tablets and oral granules)	Singulair®	Merck & Co Inc	$ 4.80
Metoprolol succinate extended-release tablets	Toprol-XL®	AstraZeneca	$ 1.13
Amoxicillin (tables, capsules and oral suspension)	Amoxil®	Glaxosmithkline LLC	$ 0.18
Sildenafil tablets (20 mg)	Revatio®	Pfizer Inc	$ 0.339

* Total annual market size in the United States at the time of our generic launch, as per IMS Health.

Total annual market size in the United States at the time of our generic launch, as per Symphony IRI Info Scan Reviews.

India: Our Global Generics segment s revenues from India were 11,079 million for the nine months ended December 31, 2012, an increase of 14% as compared to the nine months ended December 31, 2011.

Russia: Our Global Generics segment s revenues from Russia were 10,454 million for the nine months ended December 31, 2012, an increase of 28% as compared to the nine months ended December 31, 2011.

Other Countries of former Soviet Union: Our Global Generics segment s revenues from other countries of the former Soviet Union were 1,935 million for the nine months ended December 31, 2012, an increase of 24% as compared to the nine months ended December 31, 2011.

Germany: Our Global Generics segment s revenue from Germany were 3,854 million for the nine months ended December 31, 2012, a decrease of 2% as compared to the nine months ended December 31, 2011.

Other countries of Europe: Our Global Generics segment s revenues from our Rest of Europe markets (i.e., all European markets other than Germany, Russia and other countries of the former Soviet Union) for the nine months ended December 31, 2012 were 2,032 million, a decrease of 20% as compared to the nine months ended December 31, 2011.

Other Markets: Our Global Generics segment s revenues from our Rest of the World markets were 4,210 million for the nine months ended December 31, 2012, an increase of 51% as compared to the nine months ended December 31, 2011.

Pharmaceutical Services and Active Ingredients (PSAI)

Our PSAI segment s revenues for the nine months ended December 31, 2012 were 20,529 million, an increase of 26% as compared to the nine months ended December 31, 2011.

Gross Profit

Our total gross profit was 43,733 million for the nine months ended December 31, 2012, representing 53% of revenues for that period, as compared to 39,335 million for the nine months ended December 31, 2011, representing 56% of revenues for that period.

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	For the nine months ended December 31,			
	2012		2011	
	(in Millions)			
	Gross Profit	% of Segment Revenue	Gross Profit	% of Segment Revenue
Global Generics	35,697	59%	33,560	65%
Pharmaceutical Services and Active Ingredients	6,492	32%	4,662	29%
Proprietary Products	982	91%	648	83%
Others	562	45%	465	39%
Total	**43,733**	**53%**	**39,335**	**56%**

Selling, general and administrative expenses

Our selling, general and administrative expenses were 24,862 million for the nine months ended December 31, 2012, an increase of 15% as compared to 21,651 million for the nine months ended December 31, 2011.

Research and development expenses

Our research and development costs were 5,347 million for the nine months ended December 31, 2012, an increase of 28% as compared to 4,170 million for the nine months ended December 31, 2011. Our research and development expenses were equal to 6% of the total revenues for the nine months ended December 31, 2012. This increase was in accordance with our strategy to expand our research and development activities across focus segments.

Finance income/(expense), net

Our net finance income was 63 million for the nine months ended December 31, 2012, as compared to a net finance income of 78 million for the nine months ended December 31, 2011. The decrease in net finance income was on account of:

- net foreign exchange gain of 21 million for the nine months ended December 31, 2012, as compared to net foreign exchange gain of 593 million for the nine months ended December 31, 2011;
- net interest expense of 63 million for the nine months ended December 31, 2012, as compared to 601 million for the nine months ended December 31, 2011; and
- profit on sale of investments of 105 million for the nine months ended December 31, 2012, as compared to 86 million for the nine months ended December 31, 2011.

Profit before income taxes

As a result of the above, our profit before income taxes was 13,826 million for the nine months ended December 31, 2012, a decrease of 3% as compared to 14,202 million for the nine months ended December 31, 2011.

Income tax expense

Income tax expense was 2,759 million for the nine months ended December 31, 2012, as compared to 3,367 million for the nine months ended December 31, 2011.

Profit for the period

As a result of the above, our net income was 11,067 million for the nine months ended December 31, 2012, representing 13% of our total revenues for such period, as compared to 10,835 million for the nine months ended December 31, 2011 representing 15% of our total revenues

for such period.

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ITEM 3. LIQUIDITY AND CAPITAL RESOURCES

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

As part of our growth strategy, we continue to review opportunities to acquire companies, complementary technologies or product rights. To the extent that any such acquisitions involve cash payments, rather than the issuance of shares, we may need to borrow from banks or raise additional funds from the debt or equity markets.

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

		Nine months ended December 31,		
		2012	2012	2011
		(in millions, U.S.$ in millions)		
Net cash from/(used in):		*Convenience translation into U.S.$*		
Operating activities	U.S.$	196	10,741	9,313
Investing activities		(162)	(8,869)	(8,384)
Financing activities		(15)	(830)	9,383
Net increase/(decrease) in cash and cash equivalents	U.S.$	19	1,042	10,312

Operating Activities

The net result of operating activities was a cash inflow of 10,741 million for the nine months ended December 31, 2012, as compared to a cash inflow of 9,313 million for the nine months ended December 31, 2011. This increase in cash inflow was primarily due to increasedworking capital in the nine months ended December 31, 2011 attributable to launches of new products, particularly olanzapine 20 mg tablets in the United States. As a result of increased accounts receivable and inventory from these launches, our working capital balance increased during such period but the corresponding cash inflows were not fully realized during such period. The impact of launches was less significant during the nine months ended December 31, 2012.

Such increase in cash inflow was partially offset by an increase in other assets and liabilities during the nine months ended December 31, 2012. Such other assets and liabilities primarily consists of the following: amounts pertaining to value added taxes; excise input credits that can be utilized to offset Indian excise and service tax liabilities; amounts pertaining to various export entitlement schemes which we claim, such as India s Focus Product Scheme and Focus Market Scheme; advance payments to our vendors; advance payments from our customers; amounts payable by us to various governmental authorities for indirect taxes; amounts payable or receivable under derivative contracts; and other accrued expenses.

Our earnings before interest expense, tax expense, depreciation, impairment and amortization increased by 21 million to 18,632 million for the nine months ended December 31, 2012, as compared to 18,611 million for the nine months ended December 31, 2011.

Our days sales outstanding (DSO), as at December 31, 2012 and 2011, were 86 days and 88 days, respectively.

Investing Activities

Our investing activities resulted in a net cash outflow of 8,869 million for the nine months ended December 31, 2012, as compared to a net cash outflow of 8,384 million for the nine months ended December 31, 2011. This increase of 485 million was primarily due to:

a net increase in investment in mutual funds and fixed deposits having a maturity of more than three months by 2,117 million during the nine months ended December 31, 2012, as compared to the nine months ended December 31, 2011; and

approximately 1,605 million of cash outflow during the nine months ended December 31, 2011 for payment towards acquisition of the rights to manufacture, distribute and market the product Cloderm® (clocortolone pivalate 0.1%) in the United States.

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Financing Activities

Our financing activities resulted in a net cash outflow of 830 million for the nine months ended December 31, 2012, as compared to a net cash inflow of 9,383 million for the nine months ended December 31, 2011. This change in cash flow from financing activities was primarily due to a long term loan of 10,713 (U.S.$220) million borrowed by our Swiss subsidiary, Dr. Reddy s Laboratories, SA, during the nine months ended December 31, 2011.

Principal Debt Obligations

The following table provides a list of our principal debt obligations (excluding capital lease obligations) outstanding as of December 31, 2012:

Debt	**Principal Amount (in millions, U.S.$ in millions)**		**Currency**	**Interest Rate**
	Convenience translation into U.S.$			
Packing credit foreign currency borrowings			USD	LIBOR + 75 to 120 bps
			EURO	LIBOR + 95 to 125 bps
			EURO	EURIBOR + 125 bps
	U.S.$250	13,725	RUB	8% to 8.65%
Other foreign currency borrowings			USD	LIBOR + 100 bps
	105	5,746	EURO	EURIBOR + 110 bps
Bonus debentures	93	5,078	INR	9.25%
Long-term loans from banks	221	12,099	USD	LIBOR+145 bps

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ITEM 4. RECENT DEVELOPMENTS

Our Venezuela operations are primarily restricted to the import by Dr. Reddy s Venezuela, S.A. of pharmaceutical products from our parent company for the purpose of supply in the local market of Venezuela.

On February 8, 2013, the Foreign Exchange Administration Commission of Venezuela (commonly referred to as the CADIVI) enacted a decree (exchange agreement No. 14) through Official Gazette No. 40,108 to devalue the Venezuelan Bolívar (VEF) exchange rate from 4.3 VEF per U.S. dollar to 6.3 VEF per U.S. dollar. However, there are exemptions which permit the use of the pre-devaluation rate of 4.3 VEF per U.S. dollar for transactions meeting certain conditions, including the following:

- The sale of foreign currency by the Central Bank of Venezuela (BCV) for an autorización de liquidación de divisas (ALD) (a) which has been delivered by CADIVI to the BCV and received by the latter by February 8, 2013, (b) which is valid and in force and effect by that date, and (c) in respect of which the actual payment has not been requested by the relevant authorized exchange operator to the BCV by that date.

- The sale of foreign currency by the BCV for an autorización de adquisición de divisas (AAD) which was approved by CADIVI after October 15, 2012 and before February 8, 2013, and provided that an ALD is subsequently granted by the CADIVI.

We are exposed to the foreign exchange loss on account of devaluation of our receivables and other net monetary assets denominated in VEF. However, we have various ALDs and AADs pending which we expect to result in the application of pre-devaluation exchange rates, and to largely offset the aforesaid foreign exchange loss.

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ITEM 5. EXHIBITS

Exhibit Number	Description of Exhibits
99.1	Independent Auditors Report on Review of Unaudited Condensed Consolidated Interim Financial Statements

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SIGNATURES

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

DR. REDDY S LABORATORIES LIMITED

(Registrant)

Date: February 26, 2013

By: /s/ Sandeep Poddar
Name: Sandeep Poddar
Title: Company Secretary