

DR REDDYS LABORATORIES LTD

Form 6-K

February 10, 2017

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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, 2016

Commission File Number 1-15182

DR. REDDY S LABORATORIES LIMITED

(Translation of registrant's name into English)

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

Hyderabad, Telangana 500 034, India

+91-40-49002900

(Address of principal executive office)

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

Form 20-F [X]

Form 40-F []

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

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

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

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

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

Yes

No

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

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QUARTERLY REPORT

Quarter Ended December 31, 2016

Currency of Presentation and Certain Defined Terms

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

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

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

Except as otherwise stated in this report, all convenience translations from Indian rupees to U.S. dollars are at the certified foreign exchange rate of U.S.\$1.00 = Rs.67.92, as published by Federal Reserve Board of Governors on December 30, 2016. 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**UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION**

(in millions, except share and per share data)

| Particulars | Note | As of | | |
|--|------|---|-------------------|-------------------|
| | | December 31, 2016 | December 31, 2016 | March 31, 2016 |
| | | <i>Convenience translation into U.S.\$ (See Note 2.(d))</i> | | |
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | 5 | U.S.\$89 | Rs.6,031 | Rs.4,921 |
| Other investments | 6 | 208 | 14,114 | 35,034 |
| Trade and other receivables | | 605 | 41,119 | 41,306 |
| Inventories | 7 | 442 | 30,052 | 25,578 |
| Derivative financial instruments | 9 | 1 | 97 | 175 |
| Current tax assets | | 24 | 1,605 | 1,664 |
| Other current assets | | 172 | 11,679 | 11,010 |
| Assets held for sale | 12 | 10 | 666 | - |
| Total current assets | | U.S.\$1,551 | Rs.105,363 | Rs.119,688 |
| Non-current assets | | | | |
| Property, plant and equipment | 10 | U.S.\$842 | Rs.57,209 | Rs.53,961 |
| Goodwill | 11 | 56 | 3,789 | 3,848 |
| Other intangible assets | 12 | 680 | 46,188 | 20,796 |
| Investment in equity accounted investees | | 23 | 1,551 | 1,309 |
| Other investments non-current | 6 | 86 | 5,838 | 1,988 |
| Deferred tax assets | | 90 | 6,102 | 4,997 |
| Other non-current assets | | 17 | 1,148 | 1,063 |
| Total non-current assets | | U.S.\$1,794 | Rs.121,825 | Rs.87,962 |
| Total assets | | U.S.\$3,345 | Rs.227,188 | Rs.207,650 |

LIABILITIES AND EQUITY**Current liabilities**

| | | | | |
|---------------------------------------|----|--------------------|------------------|------------------|
| Trade and other payables | | U.S.\$196 | Rs.13,308 | Rs.12,300 |
| Derivative financial instruments | 9 | 1 | 60 | 108 |
| Current tax liabilities | | 32 | 2,168 | 2,581 |
| Short-term borrowings | 13 | 768 | 52,158 | 22,718 |
| Long-term borrowings, current portion | 13 | 2 | 124 | 110 |
| Provisions | | 73 | 4,949 | 4,759 |
| Other current liabilities | | 331 | 22,514 | 22,070 |
| Total current liabilities | | U.S.\$1,403 | Rs.95,281 | Rs.64,646 |

Non-current liabilities

| | | | | |
|---|----|------------------|------------------|------------------|
| Long-term borrowings, excluding current portion | 13 | U.S.\$84 | Rs.5,717 | Rs.10,685 |
| Provisions non-current | | 1 | 48 | 55 |
| Deferred tax liabilities | | 21 | 1,405 | 767 |
| Other non-current liabilities | | 54 | 3,697 | 3,161 |
| Total non-current liabilities | | U.S.\$160 | Rs.10,867 | Rs.14,668 |

| | | | | |
|--------------------------|--|--------------------|-------------------|------------------|
| Total liabilities | | U.S.\$1,563 | Rs.106,148 | Rs.79,314 |
|--------------------------|--|--------------------|-------------------|------------------|

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

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

| Particulars | As of | | | |
|-------------------------------------|-------|--|-------------------|-------------------|
| | Note | December 31, 2016 | December 31, 2016 | March 31, 2016 |
| | | <i>Convenience translation into U.S.\$</i> | | |
| | | <i>(See Note 2.(d))</i> | | |
| Equity | | | | |
| Share capital | 16 | U.S.\$12 | Rs.829 | Rs.853 |
| Share premium | | 108 | 7,329 | 22,601 |
| Share based payment reserve | | 14 | 934 | 1,100 |
| Retained earnings | | 1,547 | 105,099 | 99,550 |
| Other components of equity | | 101 | 6,849 | 4,232 |
| Total equity | | U.S.\$1,782 | Rs.121,040 | Rs.128,336 |
| Total liabilities and equity | | U.S.\$3,345 | Rs.227,188 | Rs.207,650 |

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

Table of Contents**DR. REDDY S LABORATORIES LIMITED****UNAUDITED CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT****(in millions, except share and per share data)****Nine months ended December 31, Three months ended December 31,**

| | Note | 2016 | 2016 | 2015 | 2016 | 2015 |
|---|-------------|--|-------------------|-------------------|------------------|------------------|
| Particulars | | | | | | |
| | | <i>Convenience translation into U.S.\$</i> | | | | |
| | | <i>(See Note 2.(d))</i> | | | | |
| Revenues | | U.S.\$1,550 | Rs.105,267 | Rs.117,146 | Rs.37,065 | Rs.39,679 |
| Cost of revenues | | 664 | 45,093 | 46,141 | 15,166 | 16,089 |
| Gross profit | | 886 | 60,174 | 71,005 | 21,899 | 23,590 |
| Selling, general and administrative expenses | | 521 | 35,399 | 34,070 | 11,341 | 12,039 |
| Research and development expenses | | 220 | 14,972 | 12,955 | 4,956 | 4,095 |
| Other (income)/expense, net | 14 | (8) | (560) | (567) | (187) | (122) |
| Total operating expenses | | 733 | 49,811 | 46,458 | 16,110 | 16,012 |
| Results from operating activities | | 153 | 10,363 | 24,547 | 5,789 | 7,578 |
| Finance income | | 19 | 1,302 | 1,368 | 218 | 396 |
| Finance expense | | (7) | (448) | (1,430) | (174) | (458) |
| Finance (expense)/income, net | 15 | 13 | 854 | (62) | 44 | (62) |
| Share of profit of equity accounted investees, net of tax | | 4 | 247 | 170 | 89 | 64 |

| | | | | | | |
|---|----|------------------|-----------------|------------------|-----------------|-----------------|
| Profit before tax | | 169 | 11,464 | 24,655 | 5,922 | 7,580 |
| Tax expense | 19 | 38 | 2,550 | 5,388 | 1,221 | 1,788 |
| Profit for the period | | 131 | 8,914 | 19,267 | 4,701 | 5,792 |
| Attributable to: | | | | | | |
| Equity holders of the Company | | 131 | 8,914 | 19,267 | 4,701 | 5,792 |
| Non-controlling interest | | - | - | - | - | - |
| Profit for the period | | U.S.\$131 | Rs.8,914 | Rs.19,267 | Rs.4,701 | Rs.5,792 |
| Earnings per share: | | | | | | |
| Basic earnings per share of Rs.5/- each | | U.S.\$0.79 | Rs.53.39 | Rs.112.99 | Rs.28.38 | Rs.33.95 |
| Diluted earnings per share of Rs.5/- each | | U.S.\$0.78 | Rs.53.26 | Rs.112.63 | Rs.28.32 | Rs.33.86 |

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

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

(in millions, except share and per share data)

| Particulars | Nine months ended December 31, | | Three months ended December 31, | | |
|--|-------------------------------------|------------------|---------------------------------|-----------------|-----------------|
| | 2016 | 2016 | 2015 | 2016 | 2015 |
| | <i>Convenience translation into</i> | | | | |
| | <i>U.S.\$</i> | | | | |
| | <i>(See Note 2.(d))</i> | | | | |
| Profit for the period | U.S.\$131 | Rs.8,914 | Rs.19,267 | Rs.4,701 | Rs.5,792 |
| Other comprehensive income/(loss) | | | | | |
| <i>Items that will not be reclassified to profit or loss:</i> | - | - | - | - | - |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | | | |
| Changes in fair value of available for sale financial instruments | U.S.\$42 | Rs.2,842 | Rs.1,398 | Rs.1,074 | Rs.1,236 |
| Foreign currency translation adjustments | (5) | (328) | 319 | 182 | 47 |
| Effective portion of changes in fair value of cash flow hedges, net | 12 | 832 | 713 | (37) | 323 |
| Tax on items that may be reclassified subsequently to profit or loss | (11) | (729) | (541) | (253) | (331) |
| Total items that may be reclassified subsequently to profit or loss | U.S.\$39 | Rs.2,617 | Rs.1,889 | Rs.966 | Rs.1,275 |
| Other comprehensive income/(loss) for the period, net of tax | U.S.\$39 | Rs.2,617 | Rs.1,889 | Rs.966 | Rs.1,275 |
| Total comprehensive income for the period | U.S.\$170 | Rs.11,531 | Rs.21,156 | Rs.5,667 | Rs.7,067 |

Attributable to:

| | | | | | |
|-------------------------------|-----|--------|--------|-------|-------|
| Equity holders of the Company | 170 | 11,531 | 21,156 | 5,667 | 7,067 |
| Non-controlling interests | - | - | - | - | - |

Total comprehensive income for the period

| | | | | |
|------------------|------------------|------------------|-----------------|-----------------|
| U.S.\$170 | Rs.11,531 | Rs.21,156 | Rs.5,667 | Rs.7,067 |
|------------------|------------------|------------------|-----------------|-----------------|

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

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

| Particulars | Number of shares | Share capital | Share premium | Fair value reservøpayment reserve | Share based payment reserve |
|---|-------------------------|----------------------|----------------------|--|--|
| Balance as of April 1, 2016 (A) | 170,607,653 | Rs.853 | Rs.22,601 | Rs.1,034 | Rs.1,100 |
| Total comprehensive income | | | | | |
| Profit for the period | - | Rs.- | Rs.- | Rs.- | Rs.- |
| Net change in fair value of available for sale financial instruments, net of tax expense of Rs.682 | - | - | - | 2,160 | - |
| Foreign currency translation adjustments, net of tax expense of Rs.28 | - | - | - | - | - |
| Effective portion of changes in fair value of cash flow hedges, net of tax expense of Rs.19 | - | - | - | - | - |
| Total comprehensive income (B) | - | Rs.- | Rs.- | Rs.2,160 | Rs.- |
| Transactions with owners of the Company | | | | | |
| Contributions and distributions | | | | | |
| Issue of equity shares on exercise of options | 196,486 | Rs.1 | Rs.422 | Rs.- | Rs.(422) |
| Buyback of equity shares ⁽¹⁾ | (5,077,504) | (25) | (15,669) | - | - |
| Share based payment expense | - | - | - | - | 256 |
| Dividend paid (including corporate dividend tax) | - | - | - | - | - |

| | | | | | |
|--|--------------------|-----------------|--------------------|-----------------|-----------------|
| Transfer to capital redemption reserve | - | - | (25) | - | - |
| Total contributions and distributions | (4,881,018) | Rs.(24) | Rs.(15,272) | Rs.- | Rs.(166) |
| Changes in ownership interests | - | Rs.- | Rs.- | Rs.- | Rs.- |
| Total transactions with owners of the Company (C) | (4,881,018) | Rs.(24) | Rs.(15,272) | Rs.- | Rs.(166) |
| Balance as of December 31, 2016 [(A)+(B)+(C)] | 165,726,635 | Rs.829 | Rs.7,329 | Rs.3,194 | Rs.934 |
| Convenience translation into U.S.\$ (See Note 2.(d)) | | U.S.\$12 | U.S.\$108 | U.S.\$47 | U.S.\$14 |
| Balance as of April 1, 2015 (D) | 170,381,174 | Rs.852 | Rs.22,178 | Rs.1,141 | Rs.1,081 |
| Total comprehensive income | | | | | |
| Profit for the period | - | Rs.- | Rs.- | Rs.- | Rs.- |
| Net change in fair value of available for sale financial instruments, net of tax expense of Rs.408 | - | - | - | 990 | - |
| Foreign currency translation adjustments, net of tax expense of Rs.75 | - | - | - | - | - |
| Effective portion of changes in fair value of cash flow hedges, net of tax expense of Rs.58 | - | - | - | - | - |
| Total comprehensive income (E) | - | Rs.- | Rs.- | Rs.990 | Rs.- |
| Transactions with owners of the Company | | | | | |
| Contributions and distributions | | | | | |
| Issue of equity shares on exercise of options | 226,479 | Rs.1 | Rs.423 | Rs.- | Rs.(423) |
| Share based payment expense | - | - | - | - | 328 |
| Dividend paid (including corporate dividend tax) | - | - | - | - | - |
| | 226,479 | Rs.1 | Rs.423 | Rs.- | Rs.(95) |

Total contributions and distributions**Changes in ownership interests**

| | | | | |
|---|------|------|------|------|
| - | Rs.- | Rs.- | Rs.- | Rs.- |
|---|------|------|------|------|

Total transactions with owners of the Company (F)

| | | | | |
|---------|------|--------|------|---------|
| 226,479 | Rs.1 | Rs.423 | Rs.- | Rs.(95) |
|---------|------|--------|------|---------|

Balance as of December 31, 2015 [(D)+(E)+(F)]

| | | | | |
|-------------|--------|-----------|----------|--------|
| 170,607,653 | Rs.853 | Rs.22,601 | Rs.2,131 | Rs.986 |
|-------------|--------|-----------|----------|--------|

[Continued on next page]

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

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

(in millions, except share and per share data)

[Continued from above table, first column repeated]

| Particulars | Foreign currency translation reserve | Hedging reserve | Retained earnings | Actuarial gains / (losses) | Total |
|--|---|------------------------|--------------------------|-----------------------------------|--------------------|
| Balance as of April 1, 2016 (A) | Rs.4,424 | Rs.(822) | Rs.99,550 | Rs.(404) | Rs.128,336 |
| Total comprehensive income | | | | | |
| Profit for the period | Rs.- | Rs.- | Rs.8,914 | Rs.- | Rs.8,914 |
| Net change in fair value of available for sale financial instruments, net of tax expense of Rs.682 | - | - | - | - | 2,160 |
| Foreign currency translation adjustments, net of tax expense of Rs.28 | (356) | - | - | - | (356) |
| Effective portion of changes in fair value of cash flow hedges, net of tax expense of Rs.19 | - | 813 | - | - | 813 |
| Total comprehensive income (B) | Rs.(356) | Rs.813 | Rs.8,914 | Rs.- | Rs.11,531 |
| Transactions with owners of the Company | | | | | |
| Contributions and distributions | | | | | |
| Issue of equity shares on exercise of options | Rs.- | Rs.- | Rs.- | Rs.- | Rs.1 |
| Buyback of equity shares ⁽¹⁾ | - | - | - | - | (15,694) |
| Share based payment expense | - | - | - | - | 256 |
| Dividend paid (including corporate dividend tax) | - | - | (3,390) | - | (3,390) |
| Transfer to capital redemption reserve | - | - | 25 | - | - |
| Total contributions and distributions | Rs.- | Rs.- | Rs.(3,365) | Rs.- | Rs.(18,827) |

| <i>Changes in ownership interests</i> | Rs.- | Rs.- | Rs.- | Rs.- | Rs.- |
|--|-----------------|-------------------|--------------------|------------------|--------------------|
| Total transactions with owners of the Company (C) | Rs.- | Rs.- | Rs.(3,365) | Rs.- | Rs.(18,827) |
| Balance as of December 31, 2016 [(A)+(B)+(C)] | Rs.4,068 | Rs.(9) | Rs.105,099 | Rs.(404) | Rs.121,040 |
| Convenience translation into U.S.\$ (See Note 2.(d)) | U.S.\$60 | U.S.\$0 | U.S.\$1,547 | U.S.\$(6) | U.S.\$1,782 |
| Balance as of April 1, 2015 (D) | Rs.4,455 | Rs.(1,765) | Rs.83,643 | Rs.(283) | Rs.111,302 |
| Total comprehensive income | | | | | |
| Profit for the period | Rs.- | Rs.- | Rs.19,267 | Rs.- | Rs.19,267 |
| Net change in fair value of available for sale financial instruments, net of tax expense of Rs.408 | - | - | - | - | 990 |
| Foreign currency translation adjustments, net of tax expense of Rs.75 | 244 | - | - | - | 244 |
| Effective portion of changes in fair value of cash flow hedges, net of tax expense of Rs.58 | - | 655 | - | - | 655 |
| Total comprehensive income (E) | Rs.244 | Rs.655 | Rs.19,267 | Rs.- | Rs.21,156 |
| Transactions with owners of the Company | | | | | |
| Contributions and distributions | | | | | |
| Issue of equity shares on exercise of options | Rs.- | Rs.- | Rs.- | Rs.- | Rs.1 |
| Share based payment expense | - | - | - | - | 328 |
| Dividend paid (including corporate dividend tax) | - | - | (4,106) | - | (4,106) |
| Total contributions and distributions | Rs.- | Rs.- | Rs.(4,106) | Rs.- | Rs.(3,777) |
| Changes in ownership interests | Rs.- | Rs.- | Rs.- | Rs.- | Rs.- |
| Total transactions with owners of the Company (F) | Rs.- | Rs.- | Rs.(4,106) | Rs.- | Rs.(3,777) |
| Balance as of December 31, 2015 [(D)+(E)+(F)] | Rs.4,699 | Rs.(1,110) | Rs.98,804 | Rs.(283) | Rs.128,681 |

(1) Refer to Note 16 of these unaudited condensed consolidated interim financial statements.

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

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

(in millions, except share and per share data)

| Particulars | Note | For the nine months ended December 31, | | |
|---|------|---|------------------|------------------|
| | | 2016 | 2016 | 2015 |
| | | <i>Convenience translation into U.S.\$ (See Note 2.(d))</i> | | |
| Cash flows from/(used in) operating activities: | | | | |
| Profit for the period | | U.S.\$131 | Rs.8,914 | Rs.19,267 |
| <i>Adjustments for:</i> | | | | |
| Income tax expense | | 38 | 2,550 | 5,388 |
| Dividend and profit on sale of investments | | (11) | (770) | (406) |
| Depreciation and amortization | | 124 | 8,419 | 7,310 |
| Impairment on other intangible assets | | 1 | 99 | 194 |
| Inventory write-downs | | 29 | 1,999 | 1,777 |
| Allowance for doubtful trade and other receivables | | 1 | 49 | 83 |
| Loss/(profit) on sale of property, plant and equipment and other intangible assets, net | | (0) | (12) | 23 |
| Allowance for sales returns | | 33 | 2,243 | 2,131 |
| Share of profit of equity accounted investees | | (4) | (247) | (170) |
| Exchange (gain)/loss, net | | 1 | 45 | 2,105 |
| Interest (income)/expense, net | | (0) | (21) | (305) |
| Share based payment expense | | 4 | 286 | 349 |
| <i>Changes in operating assets and liabilities:</i> | | | | |
| Trade and other receivables | | 20 | 1,350 | (46) |
| Inventories | | (98) | (6,689) | (2,705) |
| Trade and other payables | | 19 | 1,262 | 465 |
| Other assets and other liabilities | | (39) | (2,664) | 665 |
| Cash generated from operations | | U.S.\$248 | Rs.16,813 | Rs.36,125 |
| Income tax paid | | (56) | (3,817) | (4,134) |
| Net cash from operating activities | | U.S.\$192 | Rs.12,996 | Rs.31,991 |

Cash flows from/(used in) investing activities:

| | | | | |
|---|---|--------------------|--------------------|--------------------|
| Expenditure on property, plant and equipment | | U.S.\$(137) | Rs.(9,325) | Rs.(8,709) |
| Proceeds from sale of property, plant and equipment | | 1 | 65 | 46 |
| Expenditure on other intangible assets | | (417) | (28,307) | (2,606) |
| Investment in equity accounted investees | | (1) | (86) | - |
| Purchase of other investments | | (531) | (36,032) | (38,361) |
| Proceeds from sale of other investments | | 854 | 57,977 | 41,774 |
| Cash paid for acquisition of business, net of cash acquired | 4 | - | - | (7,936) |
| Interest and dividend received | | 7 | 477 | 526 |
| Net cash used in investing activities | | U.S.\$(225) | Rs.(15,231) | Rs.(15,266) |

Cash flows from/(used in) financing activities:

| | | | | |
|--|----|-----------------|-----------------|--------------------|
| Proceeds from issuance of equity shares | | U.S.\$0 | Rs.1 | Rs.1 |
| Buyback of equity shares | 16 | (231) | (15,694) | - |
| Proceeds from/(repayment of) of short term borrowings, net | | 420 | 28,537 | 636 |
| Repayment of long term borrowings | | (77) | (5,226) | (11,647) |
| Dividend paid (including corporate dividend tax) | | (50) | (3,390) | (4,106) |
| Interest paid | | (8) | (524) | (722) |
| Net cash from/(used in) financing activities | | U.S.\$55 | Rs.3,704 | Rs.(15,838) |

| | | | | |
|--|----------|-----------------|-----------------|-----------------|
| Net increase in cash and cash equivalents | | 22 | 1,469 | 887 |
| Effect of exchange rate changes on cash and cash equivalents | | (5) | (359) | (378) |
| Cash and cash equivalents at the beginning of the period | 5 | 72 | 4,921 | 5,394 |
| Cash and cash equivalents at the end of the period | 5 | U.S.\$89 | Rs.6,031 | Rs.5,903 |

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

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DR. REDDY S LABORATORIES LIMITED

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in millions, except share and per share data)

1. Reporting entity

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

2. Basis of preparation of financial statements

a) Statement of compliance

These unaudited condensed consolidated interim financial statements (hereinafter referred to as interim financial statements) are prepared in accordance with IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board (IASB). They do not include all of the information required for a complete set of annual financial statements and should be read in conjunction with the audited consolidated financial statements and related notes included in the Company s Annual Report on Form 20-F for the fiscal year ended March 31, 2016. These interim financial statements were authorized for issuance by the Company s Board of Directors on February 10, 2017.

b) Significant accounting policies

The accounting policies applied by the Company in these 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, 2016 contained in the Company s Annual Report on Form 20-F.

c) Functional and presentation currency

These 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 certain non-Indian subsidiaries that operate as marketing arms of the parent company in their respective countries/regions, the functional currency has been determined to be the functional currency of the parent company (i.e., the Indian rupee). The operations of these entities are largely restricted to importing of finished goods from the parent company in India, sales of these products in the foreign country and making of import payments to the parent company. The cash flows realized from sales of goods are available for making import payments to the parent company and cash is paid to the parent company on a regular basis. The costs incurred by these entities are primarily the cost of goods imported from the parent company. The financing of these subsidiaries is done directly or indirectly by the parent company. In respect of subsidiaries whose operations are self-contained and integrated within their respective countries/regions, the functional currency has been generally determined to be the local currency of those countries/regions unless use of a different currency is considered appropriate.

d) Convenience translation

These interim financial statements have been prepared in Indian rupees. Solely for the convenience of the reader, these interim financial statements as of and for the nine months ended December 31, 2016 have been translated into U.S. dollars at the certified foreign exchange rate of U.S.\$1.00 = Rs.67.92, as published by the Federal Reserve Board of Governors on December 30, 2016. No representation is made that the Indian rupee amounts have been, could have been or could be converted into U.S. dollars at such a rate or any other rate. Such convenience translation is not subject to review by the Company's independent auditors.

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DR. REDDY S LABORATORIES LIMITED

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in millions, except share and per share data)

2. Basis of preparation of financial statements (continued)

e) Use of estimates and judgments

The preparation of 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 interim financial statements, excepting the change as mentioned below, 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, 2016.

Change in the functional currency of a foreign operation:

Until July 31, 2016, the functional currency of Dr. Reddy's Laboratories, SA, one of the Company's subsidiaries in Switzerland (the Swiss Subsidiary), was determined to be the Indian rupee. During the three months ended September 30, 2016, the Swiss Subsidiary borrowed U.S.\$350 from certain institutional lenders to acquire eight ANDAs in the United States (refer to Note 32 of these interim financial statements for further details). The Company believes that the aforesaid transactions have significant impact on the primary economic environment of the Swiss Subsidiary and, accordingly, the Swiss Subsidiary's operating, investing and financing activities will have a greater reliance on the United States dollar.

Accordingly, effective August 1, 2016, the functional currency of the Swiss Subsidiary was changed to the United States dollar. The change in functional currency of the Swiss subsidiary was applied prospectively from date of change in accordance with IAS 21, *The Effect of Changes in Foreign Exchange Rate*.

f) Recent accounting pronouncements

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

IFRS 9- Financial instruments

In July 2014, the IASB issued the final version of IFRS 9, *Financial instruments*. IFRS 9 significantly differs from IAS 39, *Financial Instruments: Recognition and Measurement*, and includes a logical model for classification and measurement, a single, forward-looking expected loss impairment model and a substantially-reformed approach to hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company believes that the new Standard will materially impact the classification and measurement of the Company's financial instruments, documentation relating to hedging financial exposures and recognition of certain fair value changes.

IFRS 15, Revenue from Contracts with Customers

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

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

IFRS 16, Leases

In January 2016, the IASB issued a new standard, IFRS 16, *Leases*. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17, *Leases*, and related interpretations and is effective for periods beginning on or after January 1, 2019. Earlier adoption of IFRS 16 is permitted if IFRS 15, *Revenue from Contracts with Customers*, has also been applied. The Company is currently in the process of evaluating the impact of this new accounting standard on its consolidated financial statements.

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DR. REDDY S LABORATORIES LIMITED

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in millions, except share and per share data)

2. Basis of preparation of financial statements (continued)

f) Recent accounting pronouncements (continued)

IFRIC 22, Foreign Currency Transactions and Advance Consideration

In December 2016, the IASB issued IFRIC Interpretation 22, Foreign Currency Transactions and Advance Consideration, which addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency. IFRIC Interpretation 22 is effective for annual reporting periods beginning on or after January 1, 2018. Earlier application is permitted. The Company is currently in the process of evaluating the impact of this change in the accounting standard on its consolidated financial statements.

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DR. REDDY S LABORATORIES LIMITED

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in millions, except share and per share data)

3. Segment reporting

The Chief Operating Decision Maker (CODM) evaluates the Company s performance and allocates resources based on an analysis of various performance indicators by operating segments. The CODM reviews revenue and gross profit as the performance indicator for all of the operating segments, and does not review the total assets and liabilities of an operating segment.

The Company s reportable operating segments are as follows:

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

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

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

Proprietary Products. This segment consists of the Company s business that focuses on the research, development, and manufacture of differentiated formulations and new chemical entities (NCEs). These novel products fall within the dermatology and neurology therapeutic areas and are marketed and sold through Promius Pharma, LLC.

Others. This includes the operations of the Company s wholly-owned subsidiary, Aurigene Discovery Technologies Limited, a discovery stage biotechnology company developing novel and best-in-class therapies in the fields of oncology and inflammation and which works with established pharmaceutical and biotechnology companies in early-stage collaborations, bringing drug candidates from hit generation to pre-clinical development.

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

Information about

segments:

For the nine months ended December 31, 2016

| Segments | Global Generics | PSAI | Proprietary Products | Others | Total |
|---|------------------|------------------|----------------------|-----------------|-------------------|
| Revenues ⁽¹⁾ | Rs.86,271 | Rs.15,876 | Rs.1,811 | Rs.1,309 | Rs.105,267 |
| Gross profit | Rs.54,055 | Rs.3,932 | Rs.1,541 | Rs.646 | Rs.60,174 |
| Selling, general and administrative expenses | | | | | 35,399 |
| Research and development expenses | | | | | 14,972 |
| Other (income)/expense, net | | | | | (560) |
| Results from operating activities | | | | | Rs.10,363 |
| Finance (expense)/income, net | | | | | 854 |
| Share of profit of equity accounted investees, net of tax | | | | | 247 |
| Profit before tax | | | | | Rs.11,464 |
| Tax expense | | | | | 2,550 |
| Profit for the period | | | | | Rs.8,914 |

⁽¹⁾ Segment revenue for the nine months ended December 31, 2016 does not include inter-segment revenues from the PSAI segment to the Global Generics segment, which is accounted for at a cost of Rs.4,733.

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

(in millions, except share and per share data)

3. Segment reporting (continued)

| Information about segments: | | For the nine months ended December 31, 2015 | | | | |
|---|------------------------|--|-----------------------------|-----------------|-------------------|--|
| Segments | Global Generics | PSAI | Proprietary Products | Others | Total | |
| Revenues ⁽¹⁾ | Rs.97,287 | Rs.16,614 | Rs.2,014 | Rs.1,231 | Rs.117,146 | |
| Gross profit | Rs.64,992 | Rs.3,744 | Rs.1,684 | Rs.585 | Rs.71,005 | |
| Selling, general and administrative expenses | | | | | 34,070 | |
| Research and development expenses | | | | | 12,955 | |
| Other (income)/expense, net | | | | | (567) | |
| Results from operating activities | | | | | Rs.24,547 | |
| Finance (expense)/income, net | | | | | (62) | |
| Share of profit of equity accounted investees, net of tax | | | | | 170 | |
| Profit before tax | | | | | Rs.24,655 | |
| Tax expense | | | | | 5,388 | |
| Profit for the period | | | | | Rs.19,267 | |

⁽¹⁾ Segment revenue for the nine months ended December 31, 2015 does not include inter-segment revenues from the PSAI segment to the Global Generics segment, which is accounted for at a cost of Rs.3,954.

| Information about segments: | | For the three months ended December 31, 2016 | | | | |
|------------------------------------|------------------------|---|-----------------------------|---------------|------------------|--|
| Segments | Global Generics | PSAI | Proprietary Products | Others | Total | |
| Revenues ⁽¹⁾ | Rs.30,638 | Rs.5,399 | Rs.603 | Rs.425 | Rs.37,065 | |
| Gross profit | Rs.19,649 | Rs.1,530 | Rs.509 | Rs.211 | Rs.21,899 | |

| | |
|--|-----------------|
| Selling, general and administrative expenses | 11,341 |
| Research and development expenses | 4,956 |
| Other (income)/expense, net | (187) |
| Results from operating activities | Rs.5,789 |
| Finance (expense)/income, net | 44 |
| Share of profit of equity accounted investees, net of tax | 89 |
| Profit before tax | Rs.5,922 |
| Tax expense | 1,221 |
| Profit for the period | Rs.4,701 |

(1) Segment revenue for the three months ended December 31, 2016 does not include inter-segment revenues from the PSAI segment to the Global Generics segment, which is accounted for at a cost of Rs.1,517.

Information about segments:**For the three months ended December 31, 2015**

| Segments | Global Generics | PSAI | Proprietary Products | Others | Total |
|--|--------------------|-----------------|-------------------------|---------------|------------------|
| Revenues ⁽¹⁾ | Rs.33,558 | Rs.5,082 | Rs.654 | Rs.385 | Rs.39,679 |
| Gross profit | Rs.22,017 | Rs.886 | Rs.546 | Rs.141 | Rs.23,590 |
| Selling, general and administrative expenses | | | | | 12,039 |
| Research and development expenses | | | | | 4,095 |
| Other (income)/expense, net | | | | | (122) |
| Results from operating activities | | | | | Rs.7,578 |
| Finance (expense)/income, net | | | | | (62) |
| Share of profit of equity accounted investees, net of tax | | | | | 64 |
| Profit before tax | | | | | Rs.7,580 |
| Tax expense | | | | | 1,788 |
| Profit for the period | | | | | Rs.5,792 |

(1) Segment revenue for the three months ended December 31, 2015 does not include inter-segment revenues from the PSAI segment to the Global Generics segment, which is accounted for at a cost of Rs.1,252.

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

(in millions, except share and per share data)

3. Segment reporting (continued)**Analysis of revenue by geography:**

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

| Country | For the nine months ended December 31, | | For the three months ended December 31, | |
|---------------|--|-------------------|---|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| India | Rs.18,822 | Rs.17,959 | Rs.6,379 | Rs.6,427 |
| United States | 53,276 | 60,770 | 18,578 | 21,154 |
| Russia | 8,112 | 8,375 | 3,087 | 3,138 |
| Others | 25,057 | 30,042 | 9,021 | 8,960 |
| | Rs.105,267 | Rs.117,146 | Rs.37,065 | Rs.39,679 |

4. Acquisition of select products portfolio of UCB

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

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

| <i>Particulars</i> | <i>Amount</i> |
|-------------------------------------|-----------------|
| Total consideration | Rs.8,000 |
| <i>Identifiable assets acquired</i> | |

| | |
|--|-----------------|
| Property, plant and equipment | 6 |
| Other intangible assets: | |
| Product related intangibles | 6,734 |
| Marketing rights | 743 |
| Current assets, net of current liabilities assumed | 194 |
| Total identifiable net assets | Rs.7,677 |
| Goodwill | Rs.323 |

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

Acquisition related costs of Rs.9 were excluded from the consideration transferred and were recognized as expense under Selling, general and administrative expenses in the consolidated income statement for the year ended March 31, 2016.

Current assets, net of current liabilities assumed, include trade receivables of Rs.118 which were expected to be fully recoverable.

Out of the total purchase consideration of Rs.8,000, the Company has paid Rs.7,936 to UCB as of December 31, 2016.

Table of Contents**DR. REDDY S LABORATORIES LIMITED****NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****(in millions, except share and per share data)****5. Cash and cash equivalents**

Cash and cash equivalents consist of the following:

| | As of | |
|---|-------------------|-----------------|
| | December 31, 2016 | March 31, 2016 |
| Cash balances | Rs.2 | Rs.2 |
| Balances with banks | 1,130 | 1,642 |
| Term deposits with banks (original maturities up to 3 months) | 4,899 | 3,277 |
| Cash and cash equivalents in the statement of financial position | Rs.6,031 | Rs.4,921 |
| Bank overdrafts used for cash management purposes | - | - |
| Cash and cash equivalents in the statement of cash flow | Rs.6,031 | Rs.4,921 |

Cash and cash equivalents included restricted cash of Rs.196 and Rs.257, respectively, as of December 31, 2016 and March 31, 2016, which consisted of:

Rs.66 as of December 31, 2016 and Rs.62 as of March 31, 2016, representing amounts in the Company's unclaimed dividend and debenture interest accounts;

Rs.54 as of December 31, 2016 and Rs.124 as of March 31, 2016, representing cash and cash equivalents of the Company's subsidiary in Venezuela, which are subject to foreign exchange controls (refer to Note 29 of these interim financial statements for further details);

Rs.49 as of December 31, 2016 and Rs.0 as of March 31, 2016, representing a portion of the purchase consideration, deposited in an escrow account, pursuant to an acquisition of an intangible asset; and

Rs.27 as of December 31, 2016 and Rs.71 as of March 31, 2016, representing other restricted cash amounts.

6. Other investments

Other investments consist of investments in units of mutual funds, equity securities and term deposits (i.e., certificates of deposit having an original maturity period exceeding 3 months) with banks. The details of such investments as of December 31, 2016 are as follows:

| | Cost | Gain recognized directly in equity | Fair value |
|--|------------------|---|-------------------|
| Investment in units of mutual funds | Rs.8,181 | Rs.1,483 | Rs.9,664 |
| Investment in equity securities ⁽¹⁾ | 2,703 | 2,875 | 5,578 |
| Term deposits with banks | 4,710 | - | 4,710 |
| | Rs.15,594 | Rs.4,358 | Rs.19,952 |
| Current portion | | | |
| Investment in units of mutual funds | Rs.7,968 | Rs.1,440 | Rs.9,408 |
| Term deposits with banks | 4,706 | - | 4,706 |
| | Rs.12,674 | Rs.1,440 | Rs.14,114 |
| Non-current portion | | | |
| Investment in units of mutual funds | Rs.213 | Rs.43 | Rs.256 |
| Investment in equity securities ⁽¹⁾ | 2,703 | 2,875 | 5,578 |
| Term deposits with banks | 4 | - | 4 |
| | Rs.2,920 | Rs.2,918 | Rs.5,838 |

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

As of March 31, 2016, the details of such investments are as follows:

| | Cost | Gain recognized directly in equity | Fair value |
|--|------------------|---|-------------------|
| Investment in units of mutual funds | Rs.21,335 | Rs.1,223 | Rs.22,558 |
| Investment in equity securities ⁽¹⁾ | 1,458 | 293 | 1,751 |
| Term deposits with banks | 12,713 | - | 12,713 |
| | Rs.35,506 | Rs.1,516 | Rs.37,022 |
| Current portion | | | |
| Investment in units of mutual funds | Rs.21,122 | Rs.1,199 | Rs.22,321 |
| Term deposits with banks | 12,713 | - | 12,713 |
| | Rs.33,835 | Rs.1,199 | Rs.35,034 |
| Non-current portion | | | |
| Investment in units of mutual funds | Rs.213 | Rs.24 | Rs.237 |
| Investment in equity securities ⁽¹⁾ | 1,458 | 293 | 1,751 |
| | Rs.1,671 | Rs.317 | Rs.1,988 |

⁽¹⁾ Primarily represents the shares of Curis, Inc. Refer to Note 23 of these interim financial statements for further details.

7. Inventories

Inventories consist of the following:

As of

December 31, 2016 March 31, 2016

| | | |
|--------------------------------------|------------------|------------------|
| Raw materials | Rs.6,952 | Rs.5,769 |
| Packing materials, stores and spares | 2,460 | 2,057 |
| Work-in-progress | 7,187 | 7,049 |
| Finished goods | 13,453 | 10,703 |
| | Rs.30,052 | Rs.25,578 |

The above table includes inventories of Rs.918 and Rs.730 which were carried at fair value less cost to sell as at December 31, 2016 and March 31, 2016, respectively.

For the three months and nine months ended December 31, 2016, the Company recorded inventory write-downs of Rs.518 and Rs.1,999, respectively (as compared to Rs.775 and Rs.1,777 for the three months and nine months ended December 31, 2015, respectively). These adjustments were included in cost of revenues.

Cost of revenues for the three months and nine months ended December 31, 2016 includes raw materials, consumables and changes in finished goods and work in progress recognized in the income statement of Rs.7,154 and Rs.21,264, respectively (as compared to Rs.8,814 and Rs.24,847 for the three months and nine months ended December 31, 2015, respectively). Cost of revenues for the three months and nine months ended December 31, 2016 includes other expenditures recognized in the income statement of Rs.8,012 and Rs.23,829, respectively (as compared to Rs.7,275 and Rs.21,294 for the three months and nine months ended December 31, 2015, respectively).

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DR. REDDY S LABORATORIES LIMITED

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in millions, except share and per share data)

8. Hedges of foreign currency risks

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

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

In respect of all of its foreign exchange derivative contracts, the Company has recorded, as part of finance costs, a net gain of Rs.47 and Rs.43 for the three months and nine months ended December 31, 2016, respectively (as compared to a net gain of Rs.320 and a net loss of Rs.346 for the three months and nine months ended December 31, 2015, respectively).

Hedges of highly probable forecasted transactions

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

The Company also designates certain non-derivative financial liabilities, such as foreign currency borrowings from banks, as hedging instruments for the hedge of foreign exchange 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 as a component of equity within the Company's hedging reserve, and re-classified in the income statement as revenue in the period corresponding to the occurrence of the forecasted transactions.

In respect of the aforesaid hedges of highly probable forecasted transactions, the Company recorded, as a component of equity, a net loss of Rs.37 and a net gain of Rs.832 for the three months and nine months ended December 31, 2016, respectively (as compared to Rs.323 and Rs.713 for the three months and nine months ended December 31, 2015, respectively). The Company also recorded, as a component of revenue, a net gain of Rs.21 and a net loss of Rs.771 for the three months and nine months ended December 31, 2016, respectively (as compared to Rs.294 and Rs.854 for the three months and nine months ended December 31, 2015, respectively).

The net carrying amount of the Company's hedging reserve as a component of equity before adjusting for tax impact was a loss of Rs.7 as at December 31, 2016, as compared to a loss of Rs.839 as at March 31, 2016.

Hedges of recognized assets and liabilities

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

9. Financial instruments

Non-derivative financial instruments

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

Derivative financial instruments

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

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

The carrying value and fair value of financial instruments by each category as at December 31, 2016 were as follows:

| | Note | Loans and receivables | Available for sale | Other financial liabilities | Derivative financial instruments | Total carrying value | Total fair value |
|---|------|--------------------------|-----------------------|-----------------------------------|--|----------------------------|---------------------|
| Assets: | | | | | | | |
| Cash and cash equivalents | 5 | Rs.6,031 | Rs.- | Rs.- | Rs.- | Rs.6,031 | Rs.6,031 |
| Other investments | 6 | 4,710 | 15,242 | - | - | 19,952 | 19,952 |
| Trade and other receivables | | 41,119 | - | - | - | 41,119 | 41,119 |
| Derivative financial instruments | | - | - | - | 97 | 97 | 97 |
| Other assets ⁽¹⁾ | | 1,905 | - | - | - | 1,905 | 1,905 |
| Total | | Rs.53,765 | Rs.15,242 | Rs.- | Rs.97 | Rs.69,104 | Rs.69,104 |
| Liabilities: | | | | | | | |
| Trade and other payables | | Rs.- | Rs.- | Rs.13,308 | Rs.- | Rs.13,308 | Rs.13,308 |
| Derivative financial instruments | | - | - | - | 60 | 60 | 60 |
| Long-term borrowings | 13 | - | - | 5,853 | - | 5,853 | 5,853 |
| Short-term borrowings | 13 | - | - | 52,158 | - | 52,158 | 52,158 |
| Other liabilities and provisions ⁽²⁾ | | - | - | 24,784 | - | 24,784 | 24,784 |

| | | | | | | | |
|--------------|--|-------------|-------------|------------------|--------------|------------------|------------------|
| Total | | Rs.- | Rs.- | Rs.96,103 | Rs.60 | Rs.96,163 | Rs.96,163 |
|--------------|--|-------------|-------------|------------------|--------------|------------------|------------------|

The carrying value and fair value of financial instruments by each category as at March 31, 2016 were as follows:

| | Note | Loans and receivables | Available for sale | Other financial liabilities | Derivative financial instruments | Total carrying value | Total fair value |
|---|------|--------------------------|-----------------------|-----------------------------------|--|----------------------------|---------------------|
| Assets: | | | | | | | |
| Cash and cash equivalents | 5 | Rs.4,921 | Rs.- | Rs.- | Rs.- | Rs.4,921 | Rs.4,921 |
| Other investments | 6 | 12,713 | 24,309 | - | - | 37,022 | 37,022 |
| Trade and other receivables | | 41,306 | - | - | - | 41,306 | 41,306 |
| Derivative financial instruments | | - | - | - | 175 | 175 | 175 |
| Other assets ⁽¹⁾ | | 2,270 | - | - | - | 2,270 | 2,270 |
| Total | | Rs.61,210 | Rs.24,309 | Rs.- | Rs.175 | Rs.85,694 | Rs.85,694 |
| Liabilities: | | | | | | | |
| Trade and other payables | | Rs.- | Rs.- | Rs.12,300 | Rs.- | Rs.12,300 | Rs.12,300 |
| Derivative financial instruments | | - | - | - | 108 | 108 | 108 |
| Long-term borrowings | 13 | - | - | 10,795 | - | 10,795 | 10,795 |
| Short-term borrowings | 13 | - | - | 22,718 | - | 22,718 | 22,718 |
| Other liabilities and provisions ⁽²⁾ | | - | - | 25,387 | - | 25,387 | 25,387 |
| Total | | Rs.- | Rs.- | Rs.71,200 | Rs.108 | Rs.71,308 | Rs.71,308 |

⁽¹⁾Other assets that are not financial assets (such as receivables from statutory authorities, export benefit receivables, prepaid expenses, advances paid and certain other assets) of Rs.12,527 and Rs.11,467 as of December 31, 2016 and March 31, 2016, respectively, are not included.

⁽²⁾Other liabilities that are not financial liabilities (such as statutory dues payable, deferred revenue, advances from customers and certain other accruals) of Rs.8,592 and Rs.7,239 as of December 31, 2016 and March 31, 2016, respectively, are not included.

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

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

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

The following table presents the fair value hierarchy of assets and liabilities measured at fair value on a recurring basis as of December 31, 2016:

| Particulars | Level 1 | Level 2 | Level 3 | Total |
|---|----------------|----------------|----------------|--------------|
| Available for sale - Financial asset - Investments in units of mutual funds | Rs.9,664 | Rs.- | Rs.- | Rs.9,664 |
| Available for sale - Financial asset - Investment in equity securities | 5,578 | - | - | 5,578 |
| Derivative financial instruments - gain/(loss) on outstanding foreign exchange forward, option and swap contracts and interest rate swap contracts ⁽¹⁾ | - | 37 | - | 37 |

The following table presents the fair value hierarchy of assets and liabilities measured at fair value on a recurring basis as of March 31, 2016:

| Particulars | Level 1 | Level 2 | Level 3 | Total |
|---|----------------|----------------|----------------|--------------|
| Available for sale - Financial asset - Investments in units of mutual funds | Rs.22,558 | Rs.- | Rs.- | Rs.22,558 |
| Available for sale - Financial asset - Investment in equity securities | 1,751 | - | - | 1,751 |
| Derivative financial instruments - gain/(loss) on outstanding foreign exchange forward, option and swap contracts and | - | 67 | - | 67 |

interest rate swap contracts⁽¹⁾

⁽¹⁾ The Company enters into derivative financial instruments with various counterparties, principally financial institutions and banks. Derivatives valued using valuation techniques with market observable inputs are mainly interest rate swaps, foreign exchange forward option and swap contracts. The most frequently applied valuation techniques include forward pricing, swap models and Black-Scholes-Merton models (for option valuation), using present value calculations.

The models incorporate various inputs, including foreign exchange spot and forward rates, interest rate curves and forward rate curves. As at December 31, 2016 and March 31, 2016, the changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognized at fair value.

10. Property, plant and equipment

Acquisitions and disposals

During the nine months ended December 31, 2016, the Company acquired assets at an aggregate cost of Rs.9,078 (as compared to a cost of Rs.9,232 and Rs.12,519 for the nine months ended December 31, 2015 and the year ended March 31, 2016, respectively).

Assets with a net book value of Rs.53 were disposed of during the nine months ended December 31, 2016 (as compared to Rs.69 and Rs.95 for the nine months ended December 31, 2015 and the year ended March 31, 2016, respectively), resulting in a net gain on disposal of Rs.12 for the nine months ended December 31, 2016 (as compared to a net loss of Rs.23 and Rs.112 for the nine months ended December 31, 2015 and the year ended March 31, 2016, respectively).

Depreciation expense for the three months and nine months ended December 31, 2016 was Rs.1,936 and Rs.5,593, respectively (as compared to Rs.1,685 and Rs.4,810 for the three months and nine months ended December 31, 2015, respectively).

Capital commitments

As of December 31, 2016 and March 31, 2016, the Company was committed to spend approximately Rs.5,495 and Rs.5,065, respectively, under agreements to purchase property, plant and equipment. This amount is net of capital advances paid in respect of such purchases.

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Goodwill arising upon business acquisitions is not amortized but tested for impairment at least annually or more frequently if there is any indication that the cash generating unit to which goodwill is allocated is impaired.

The following table presents the changes in goodwill for the nine months ended December 31, 2016 and the year ended March 31, 2016:

| | As of | |
|--|-------------------|-----------------|
| | December 31, 2016 | March 31, 2016 |
| Opening balance, gross ⁽¹⁾ | Rs.20,122 | Rs.19,654 |
| Goodwill arising on business combinations during the period ⁽²⁾ | - | 323 |
| Effect of translation adjustments during the period | (59) | 145 |
| Impairment loss ⁽³⁾ | (16,274) | (16,274) |
| Closing balance⁽¹⁾ | Rs.3,789 | Rs.3,848 |

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

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

⁽³⁾ The impairment loss of Rs.16,274 includes Rs.16,003 pertaining to the Company's German subsidiary, betapharm Arzneimittel GmbH, which is part of the Company's Global Generics segment. This impairment loss was recorded for the years ended March 31, 2009 and 2010.

12. Other intangible assets

During the three months and nine months ended December 31, 2016, the Company acquired intangible assets at an aggregate cost of Rs.388 and Rs.28,700, respectively (as compared to a cost of Rs.1,766 and Rs.10,154 for the three

months and nine months ended December 31, 2015, respectively, and Rs.10,785 for the year ended March 31, 2016), including assets acquired through business combinations of Rs.0 for the three months and nine months ended December 31, 2016 (as compared to a cost of Rs.0 and Rs.7,477 for the three months and nine months ended December 31, 2015, respectively, and Rs.7,477 for the year ended March 31, 2016).

Additions to intangible assets during the nine months ended December 31, 2016 include:

Rs.23,366 (U.S.\$350), representing the consideration paid to Teva Pharmaceutical Industries Limited to acquire eight Abbreviated New Drug Applications (ANDAs) in the United States forming part of the Company s Global Generics segment (refer to Note 32 of these interim financial statements for further details);

Rs.3,159 (U.S.\$47.5), representing the consideration for the acquisition from Xenoport, Inc. of exclusive U.S. rights for the development and commercialization of a clinical stage oral new chemical entity which forms a part of the Company s Proprietary Products segment (refer to Note 30 of these interim financial statements for further details); and

Rs.1,148 (U.S.\$17), representing the consideration for the purchase of over-the-counter (OTC) brands from Ducere Pharma LLC, which form a part of the Company s Global Generics segment (refer to Note 31 of these interim financial statements for further details).

Intangible assets acquired through business combination for the nine months ended December 31, 2015 and year ended March 31, 2016 represents assets related to the acquisition from UCB of a select portfolio of established products business. Refer to Note 4 of these interim financial statements for further details.

During the nine months ended December 31, 2016, the Company recorded an impairment charge of Rs. 72 and Rs. 27 pertaining to certain product related intangible assets forming part of the Company s Global Generics and Proprietary Products segments, respectively.

During the three months ended December 31, 2016, the management of the Company decided to and committed to a plan to sell certain intangible assets forming part of the Company s Global Generics business. Accordingly, these assets have been disclosed as Assets held for sale as on December 31, 2016.

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(in millions, except share and per share data)

12. Other intangible assets (continued)*Amortization of other intangible assets:*

| | For the nine months ended December 31, | | For the three months ended December 31, | |
|--|---|-----------------|--|---------------|
| | 2016 | 2015 | 2016 | 2015 |
| Selling, general and administrative expenses | Rs.2,450 | Rs.2,400 | Rs.831 | Rs.841 |
| Research and development expenses | 151 | 71 | 50 | 22 |
| Cost of revenues | 225 | 29 | 74 | 29 |
| | Rs.2,826 | Rs.2,500 | Rs.955 | Rs.892 |

13. Borrowings*Short term borrowings*

The Company had net short term borrowings of Rs.52,158 as of December 31, 2016, as compared to Rs.22,718 as of March 31, 2016. The borrowings primarily consist of packing credit loans drawn by the parent company and other unsecured loans drawn by Dr. Reddy s Laboratories SA (one of the Company s subsidiaries in Switzerland) (the Swiss Subsidiary) and OOO Dr. Reddy s Laboratories Limited (one of the Company s subsidiaries in Russia).

Short term borrowings consist of the following:

| | As at | |
|-----------------------------------|-------------------|------------------|
| | December 31, 2016 | March 31, 2016 |
| Packing credit borrowings | Rs.24,604 | Rs.20,896 |
| Other foreign currency borrowings | 27,554 | 1,822 |
| | Rs.52,158 | Rs.22,718 |

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

| | As at | | | |
|---|-------------------|------------------------|----------------|-----------------------|
| | December 31, 2016 | | March 31, 2016 | |
| | Currency | Interest Rate | Currency | Interest Rate |
| Packing credit borrowings | USD | LIBOR + (30) to 10 bps | USD | LIBOR + (5) to 15 bps |
| | EURO | LIBOR + 5 to 7.5 bps | EURO | LIBOR + 5 to 7.5 bps |
| | RUB | 10.40% to 10.90% | RUB | 10.65% to 11.57% |
| | INR | 6.92% to 6.95% | - | - |
| | INR | T-Bill + 30bps | - | - |
| Other foreign currency borrowings | USD | LIBOR + 40 to 55 bps | USD | LIBOR + 40 bps |
| | RUB | 10.90% | - | - |
| <i>Short-term borrowing by Swiss Subsidiary</i> | | | | |

During the three months ended September 30, 2016, the Swiss Subsidiary borrowed U.S.\$350 from certain institutional lenders at an interest rate ranging from Libor plus 0.45% to 0.55% per annum. The borrowing was solely for the purpose of acquisition of eight Abbreviated New Drug Applications (ANDAs) from Teva Pharmaceutical Industries Limited in the United States (refer to Note 32 of these interim financial statements for additional details).

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Long-term borrowings consist of the following:

| | As at | |
|--|--------------------------|-----------------------|
| | December 31, 2016 | March 31, 2016 |
| Foreign currency borrowing by the parent company | Rs.5,082 | Rs.9,938 |
| Obligations under finance leases | 759 | 857 |
| | Rs.5,841 | Rs.10,795 |
| Current portion | | |
| Obligations under finance leases | Rs.124 | Rs.110 |
| | Rs.124 | Rs.110 |
| Non-current portion | | |
| Foreign currency borrowing by the parent company | Rs.5,082 | Rs.9,938 |
| Obligations under finance leases | 635 | 747 |
| | Rs.5,717 | Rs.10,685 |

Long-term borrowing of Swiss Subsidiary

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

obligations of the Swiss Subsidiary under the loan agreement.

As part of this arrangement, the Company incurred U.S.\$3.73 in arrangement fees and other administrative charges. The Company accounted for these costs as transaction costs under IAS 39 and they were amortized over the term of the loan using the effective interest rate method.

The carrying amount of the foregoing loan, measured at amortized cost using the effective interest rate method, as on March 31, 2015 was Rs.10,292 (U.S.\$165).

During the six months ended September 30, 2015, the Company repaid the whole of the outstanding amount of Rs.10,768 (U.S.\$165). Further, during the three months ended September 30, 2015, additional short-term borrowings of U.S.\$82.5 and a packing credit borrowing of U.S.\$27.5 were taken by the Swiss Subsidiary and by the parent company, respectively. During the six months ended March 31, 2016, the Company repaid U.S.\$55 of the short-term borrowings taken by the Swiss subsidiary.

During the three months ended June 30, 2016, the Company repaid the balance of U.S.\$27.5 of the short-term borrowings taken by the Swiss subsidiary.

Long-term bank loan of the parent company

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

During the three months ended December 31, 2016, the Company entered into a financing arrangement with certain financial institutions to refinance the aforementioned borrowing of U.S.\$150.

The Company repaid U.S.\$75 of this loan on November 28, 2016, and is required to repay the U.S.\$75 balance of the loan in 3 equal installments at the end of the 40th month, 43rd month and 46th month after the date the loan was made.

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The loan agreement imposes various financial covenants on the Company. As of December 31, 2016, the Company was in compliance with such financial covenants.

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

| | As at | | | |
|---|-------------------|----------------|----------------|---------------|
| | December 31, 2016 | | March 31, 2016 | |
| | Currency | Interest Rate | Currency | Interest Rate |
| Foreign currency borrowings | USD | LIBOR+82.7 bps | USD | LIBOR+125 bps |
| <i>Undrawn lines of credit from bankers</i> | | | | |

The Company had undrawn lines of credit of Rs.18,052 and Rs.14,771 as of December 31, 2016 and March 31, 2016, 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 sales 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 sales transactions. The carrying value of such non-derivative financial liabilities as of December 31, 2016 and March 31, 2016 was Rs.0 and Rs.3,644, respectively.

14. Other (income)/expense, net

| | For the nine months ended December 31, | | For the three months ended December 31, | |
|--|---|-----------------|--|-----------------|
| | 2016 | 2015 | 2016 | 2015 |
| Loss/(profit) on sale/disposal of property, plant and equipment and other intangibles, net | Rs.(12) | Rs.23 | Rs.(18) | Rs.1 |
| Sale of spent chemical | (158) | (220) | (49) | (59) |
| Miscellaneous income, net | (390) | (370) | (120) | (64) |
| | Rs.(560) | Rs.(567) | Rs.(187) | Rs.(122) |

15. Finance (expense)/income, net

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

| | For the nine months ended December 31, | | For the three months ended December 31, | |
|---|--|----------------|--|----------------|
| | 2016 | 2015 | 2016 | 2015 |
| Interest income | Rs.459 | Rs.962 | Rs.111 | Rs.325 |
| Dividend and profit on sale of other investments ⁽¹⁾ | 770 | 406 | 107 | 71 |
| Foreign exchange gain/(loss), net ⁽²⁾ | 63 | (773) | (10) | (297) |
| Interest expense | (438) | (657) | (164) | (161) |
| | Rs.854 | Rs.(62) | Rs.44 | Rs.(62) |

⁽¹⁾ Profit on sale of other investments primarily represents amounts reclassified from other comprehensive income to the income statement on redemption of the Company's available for sale financial instruments.

⁽²⁾ Includes the foreign exchange gains related to the Company's Venezuela operations of Rs.5 and loss of Rs.35 for the three months and nine months ended December 31, 2016, respectively (as compared to losses of Rs.637 and Rs.776 for the three months and nine months ended December 31, 2015, respectively). Refer to Note 29 of these interim financial statements for further details.

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(in millions, except share and per share data)

16. Share capital and share premium

During the nine months ended December 31, 2016 and 2015, 196,486 and 226,479 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. All of the options exercised had an exercise price of Rs.5, being equal to the par value of the underlying shares. The amount of grant date fair value previously recognized for these options has been transferred from share based payment reserve to share premium in the unaudited condensed consolidated statement of changes in equity.

Buyback of equity shares

The Board of Directors of the Company, in their meeting held on February 17, 2016, approved a proposal to buy back equity shares of the Company, subject to approval by the Company s shareholders, for an aggregate amount not exceeding Rs.15,694 and at a price not exceeding Rs.3,500 per equity share from shareholders of the Company (including persons who become shareholders by cancelling American Depository Shares and receiving underlying equity shares, and excluding the promoters and promoter group of the Company) under the open market route in accordance with the provisions contained in the Securities and Exchange Board of India (Buy Back of Securities) Regulations, 1998 and the Companies Act, 2013 and rules made thereunder. The shares bought back under this plan shall be extinguished in accordance with the provisions of the Securities and Exchange Board of India (Buy Back of Securities) Regulations, 1998 and the Companies Act, 2013 and rules made thereunder.

The Company obtained the approval of the shareholders for the buyback plan on April 1, 2016 and the buyback plan commenced on April 18, 2016 and ended on June 28, 2016.

Under this plan, the Company has bought back and extinguished 5,077,504 equity shares for an aggregate purchase price of Rs.15,694. The aggregate face value of the equity shares bought back was Rs.25.

17. Employee stock incentive plans

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

The terms and conditions of the grants made during the nine months ended December 31, 2016 under the above plans were as follows:

| Particulars | Number of instruments | Exercise price | Vesting period | Contractual life |
|--------------------|------------------------------|-----------------------|-----------------------|-------------------------|
| DRL 2002 Plan | 103,136 | Rs.5.00 | 1 to 4 years | 5 years |
| DRL 2007 Plan | 52,956 | Rs.5.00 | 1 to 4 years | 5 years |

The above grants were made on July 26, 2016 , September 20, 2016 and November 15, 2016.

The terms and conditions of the grants made during the nine months ended December 31, 2015 under the above plans were as follows:

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

The above grants were made on May 11, 2015.

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

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

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

| | November 15, 2016 | September 20, 2016 | July 26, 2016 | May 11, 2015 |
|-------------------------|--------------------------|---------------------------|----------------------|---------------------|
| Expected volatility | 32.77% | 32.92% | 29.88% | 25.98% |
| Exercise price | Rs.5.00 | Rs.5.00 | Rs.5.00 | Rs.5.00 |
| Option life | 2.5 Years | 2.5 Years | 2.5 Years | 2.5 Years |
| Risk-free interest rate | 6.27% | 6.81% | 6.91% | 7.87% |
| Expected dividends | 0.60% | 0.60% | 0.60% | 0.60% |
| Grant date share price | Rs.3,310.70 | Rs.3,157.80 | Rs.3,319.65 | Rs.3,359.70 |

Share based payment expense

For the three months and nine months ended December 31, 2016, the Company recorded employee share based payment expense of Rs.127 and Rs.286, respectively (as compared to Rs.117 and Rs.349 for the three months and nine months ended December 31, 2015, respectively). As of December 31, 2016, there was approximately Rs.543 of total unrecognized compensation cost related to unvested stock options. This cost is expected to be recognized over a weighted-average period of 3.13 years.

18. Employee benefit plans*Gratuity benefits provided by the parent company*

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

For the three months and nine months ended December 31, 2016, the net periodic benefit cost was Rs.45 and Rs.177, respectively (as compared to Rs.45 and Rs.136 for the three months and nine months ended December 31, 2015, respectively).

Compensated absences

The Company provides for accumulation of compensated absences by certain categories of its employees. These employees can carry forward a portion of the unutilized compensated absences and utilize it in future periods or receive cash in lieu thereof as per the Company's policy. The Company records a liability for compensated absences in the period in which the employee renders the services that increases this entitlement. The total liability recorded by the Company towards this obligation was Rs.865 and Rs.792 as at December 31, 2016 and March 31, 2016, respectively.

Long term incentive plan

Certain senior management employees of the Company participate in a long term incentive plan which is aimed at rewarding the employee, based on performance of such employee, their business unit/function and the Company as a whole, with significantly higher rewards for superior performances. The total liability recorded by the Company towards this benefit was Rs.957 and Rs.881 as at December 31, 2016 and March 31, 2016, respectively.

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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.

The Company's consolidated weighted average tax rate for the nine months ended December 31, 2016 and 2015 was 22.2% and 21.9%, respectively. Income tax expense was Rs.2,550 for the nine months ended December 31, 2016, as compared to income tax expense of Rs.5,388 for the nine months ended December 31, 2015.

The Company's consolidated weighted average tax rate for the three months ended December 31, 2016 and 2015 was 20.6% and 23.6%, respectively. Income tax expense was Rs.1,221 for the three months ended December 31, 2016, as compared to income tax expense of Rs.1,788 for the three months ended December 31, 2015. The effective tax rate for the three months ended December 31, 2016 was lower as compared to the three months ended December 31, 2015 primarily as a result of:

elimination of unrealized profits on inventories located outside of India;

a favorable order from judicial authorities of India on a previously litigated matter relating to a tax exempt unit; and

variance in tax deductions in proportion to the profit of the respective periods.

Total tax expenses of Rs.253 and Rs.729 were recognized directly in the equity for the three months and nine months ended December 31, 2016, respectively (as compared to tax expenses of Rs.331 and Rs.541 for the three months and nine months ended December 30, 2015, respectively). Such tax expenses and benefits were primarily due to tax effects on the changes in fair value of available for sale financial instruments and on the foreign exchange gain or loss on cash flow hedges. Refer to Note 8 of these interim financial statements for further details on cash flow hedges.

20. Related parties

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

Green Park Hotel and Resorts Limited for hotel services;

Dr. Reddy s Foundation towards contributions for social development;

Pudami Educational Society towards contributions for social development;

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

Stamlo Hotels Limited for hotel services.

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

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

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

The following is a summary of significant related party transactions:

| | For the nine months ended December 31, | | For the three months ended December 31, | |
|---|---|-------|--|-------|
| | 2016 | 2015 | 2016 | 2015 |
| Research and development services received | Rs.86 | Rs.76 | Rs.29 | Rs.26 |
| Contributions towards social development | 231 | 173 | 80 | 48 |
| Hotel expenses paid | 33 | 30 | 14 | 10 |
| Lease rentals paid under cancellable operating leases to key management personnel and their relatives | 29 | 28 | 9 | 10 |

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The Company had the following amounts due from related parties:

| | As at | |
|--|--------------------------|-----------------------|
| | December 31, 2016 | March 31, 2016 |
| Key management personnel (towards rent deposits) | Rs.8 | Rs.8 |
| Other related parties | - | 1 |

The Company had the following amounts due to related parties:

| | As at | |
|------------------------|--------------------------|-----------------------|
| | December 31, 2016 | March 31, 2016 |
| Due to related parties | Rs.1 | Rs.0 |

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

| | For the nine months ended | | For the three months ended | |
|---|----------------------------------|---------------|-----------------------------------|---------------|
| | December 31, | | December 31, | |
| | 2016 | 2015 | 2016 | 2015 |
| Salaries and other benefits ⁽¹⁾ | Rs.311 | Rs.250 | Rs.98 | Rs.76 |
| Contributions to defined contribution plans | 21 | 14 | 7 | 4 |
| Commission to directors | 225 | 234 | 60 | 78 |
| Share-based payment expense | 52 | 54 | 23 | 20 |
| Total | Rs.609 | Rs.552 | Rs.188 | Rs.178 |

(1) In addition to the above, the Company has accrued Rs.22 and Rs.82 towards a long term incentive plan for the services rendered by key management personnel for the three months and nine months ended December 31, 2016, respectively (as compared to Rs.34 and Rs.92 for the three months and nine months ended December 31, 2015, respectively). Refer to Note 18 of these interim financial statements for further details.

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

21. Disclosure of Expense by Nature

The following table shows supplemental information related to certain nature of expense items for the nine months and three months ended December 31, 2016 and 2015, respectively.

For the nine months ended December 31, 2016

| Particulars | Cost of revenues | Selling, general and administrative expenses | Research and development expenses | Total |
|-------------------------------|------------------|--|-----------------------------------|-----------|
| Employee benefits | Rs.8,169 | Rs.12,499 | Rs.3,690 | Rs.24,358 |
| Depreciation and amortization | 4,495 | 2,997 | 927 | 8,419 |

For the nine months ended December 31, 2015

| Particulars | Cost of revenues | Selling, general and administrative expenses | Research and development expenses | Total |
|-------------------------------|------------------|--|-----------------------------------|-----------|
| Employee benefits | Rs.7,164 | Rs.12,472 | Rs.3,629 | Rs.23,265 |
| Depreciation and amortization | 3,620 | 2,896 | 794 | 7,310 |

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

(in millions, except share and per share data)

21. Disclosure of Expense by Nature (continued)**For the three months ended December 31, 2016**

| Particulars | Cost of revenues | Selling, general and administrative expenses | Research and development expenses | Total |
|-------------------------------|-------------------------|---|--|--------------|
| Employee benefits | Rs.2,748 | Rs.4,172 | Rs.1,227 | Rs.8,147 |
| Depreciation and amortization | 1,563 | 1,016 | 312 | 2,891 |

For the three months ended December 31, 2015

| Particulars | Cost of revenues | Selling, general and administrative expenses | Research and development expenses | Total |
|-------------------------------|-------------------------|---|--|--------------|
| Employee benefits | Rs.2,518 | Rs.4,195 | Rs.1,180 | Rs.7,893 |
| Depreciation and amortization | 1,296 | 1,015 | 266 | 2,577 |

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DR. REDDY S LABORATORIES LIMITED

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in millions, except share and per share data)

22. Contingencies

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

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

Product and patent related matters

Matters relating to National Pharmaceutical Pricing Authority

Norfloxacin, India litigation

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

During the year ended March 31, 2006, the Company received a notice from the NPPA demanding the recovery of the price charged by the Company for sales of Norfloxacin in excess of the maximum selling price fixed by the NPPA, which was Rs.285 including interest. The Company filed a writ petition in the High Court challenging this demand order. The High Court admitted the writ petition and granted an interim order, directing the Company to deposit 50% of the principal amount claimed by the NPPA, which was Rs.77. The Company deposited this amount with the NPPA in November 2005. In February 2008, the High Court directed the Company to deposit an additional amount of Rs.30, which was deposited by the Company in March 2008. In November 2010, the High Court allowed the Company's application to include additional legal grounds that the Company believes will strengthen its defense against the demand. For example, the Company added as grounds that trade margins should not be included in the computation of amounts overcharged, and that it was necessary for the NPPA to set the active pharmaceutical ingredient price before the process of determining the ceiling on the formulation price. In October 2013, the Company filed an additional writ petition before the Supreme Court challenging the inclusion of Norfloxacin as a specified product under the DPCO. In January 2015, the NPPA filed a counter affidavit stating that the inclusion of Norfloxacin was based upon the recommendation of a committee consisting of experts in the field. On July 20, 2016, the Supreme Court of India remanded the matters concerning the inclusion of Norfloxacin as a specified product under the DPCO back to the High Court for further proceedings. During the three months ended December 31, 2016, a writ petition pertaining to Norfloxacin was filed by the Company with the Delhi High Court.

During the three months ended September 30, 2016, the Supreme Court dismissed the Special Leave Petition pertaining to the fixing of prices for Norfloxacin formulations.

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DR. REDDY S LABORATORIES LIMITED

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in millions, except share and per share data)

22. Contingencies (continued)

Product and patent related matters (continued)

Based on its best estimate, the Company has recorded a provision for potential liability for sale proceeds in excess of the notified selling prices, including the interest thereon, and believes that the likelihood of any further liability that may arise on account of penalties pursuant to this litigation is not probable.

Litigation relating to Cardiovascular & Anti-diabetic formulations

In July 2014, the NPPA, pursuant to guidelines issued in May 2014 and the powers granted by the Government of India under the Drugs (Price Control) Order, 2013, issued certain notifications regulating the prices for 108 formulations in the cardiovascular and antidiabetic therapeutic areas. The Indian Pharmaceutical Alliance (IPA), in which the Company is a member, filed a writ petition in the Bombay High Court challenging the notifications issued by the NPPA on the grounds that they were ultra vires, ex facie and ab initio void. The Bombay High Court has issued stay on the writ in July 2014. On September 26, 2016, the Bombay High Court dismissed the writ petition filed by the IPA and upheld the validity of the notifications/orders passed by the NPPA in July 2014. Further, on October 25, 2016, the IPA filed a Special Leave Petition with the Supreme Court, which was dismissed by the Supreme Court.

During the three months ended December 31, 2016, the NPPA issued show-cause notices relating to a few products to the Company for recovery of the allegedly overcharged amounts. The Company has responded to these notices.

Based on its best estimate, the Company has recorded a provision of Rs.360 under Selling, general and administrative expenses as a potential liability for sale proceeds in excess of the notified selling prices, including the interest thereon, and believes that the likelihood of any further liability that may arise on account of penalties pursuant to this litigation is not probable.

In the event the Government of India pursues litigation against the Company on the aforementioned NPPA matters for the excess sales proceeds and the Company is unsuccessful in such litigation, it will be required to remit the sale proceeds in excess of the notified selling prices to the Government of India with interest and could potentially include penalties, which amounts are not readily ascertainable.

Other Product and patent related matters

Nexium United States litigations

Five federal antitrust class action lawsuits were brought on behalf of direct purchasers of Nexium®, and ten federal class action lawsuits were brought under both state and federal law on behalf of end-payers of Nexium®. These

actions were filed against various generic manufacturers, including the Company and its U.S. subsidiary Dr. Reddy's Laboratories, Inc. These actions were consolidated in the United States District Court for the District of Massachusetts.

The complaints alleged that AstraZeneca and the involved generic manufacturers settled patent litigation related to Nexium® capsules in a manner that violated antitrust laws. The Company consistently maintained that its conduct complied with all applicable laws and that the complaints were without merit. In response to a motion for summary judgment made by the Company, the Court granted the motion in part and denied it in part, finding that the plaintiffs had failed to demonstrate that the Company's settlement of patent litigation with AstraZeneca included any large or unjustified reverse payment, but preserving other claims for trial.

On October 20, 2014, the Company reached a settlement with all plaintiffs who had cases pending in the District of Massachusetts. The settlement with the class plaintiffs was subject to the Court's approval. Under the terms of the settlement, the Company made no payment to the class plaintiffs. Other defendants went to trial and prevailed.

The Court granted preliminary approval of the Company's settlements with the class plaintiffs on January 28, 2015, and granted final approval of such settlements on September 29, 2015.

On November 21, 2016, the First Circuit Court of Appeals affirmed the judgment that had been entered in favor of the defendants who tried the case to a verdict. On January 10, 2017, the First Circuit Court of Appeals denied the motions for reconsideration.

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

The Company believes that the likelihood of any liability that may arise on account of lawsuits of the plaintiffs who opted out of the class action is not probable. Accordingly, no provision has been made in these interim financial statements.

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DR. REDDY S LABORATORIES LIMITED

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in millions, except share and per share data)

22. Contingencies (continued)

Product and patent related matters (continued)

Child resistant packaging matter

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

Simultaneously, the Department of Justice (the DOJ) began to investigate a sealed complaint which was filed in the United States District Court for the Eastern District of Pennsylvania under the Federal False Claims Act (FCA) related to these same issues (the FCA Complaint). The Company cooperated with the DOJ in its investigation. The DOJ and all States involved in the investigation declined to intervene in the FCA Complaint. On November 10, 2015, the FCA Complaint was unsealed and the plaintiff whistleblowers (the Relators), who are two former employees of the Company, have proceeded without the DOJ's and States' involvement. The unsealed FCA Complaint relates to the 6 blister pack products originally subject to the investigation and also 38 of the Company's generic prescription products sold in the U.S. in various bottle and cap packaging. The Company disputes the allegations in the FCA Complaint and intends to vigorously defend against those allegations.

Although the DOJ and States have declined to intervene in the FCA Complaint filed by the Relators, the parallel investigation by the CPSC under the CPSA and the PPPA was referred by the CPSC to the DOJ in April 2016, with the recommendation that the DOJ initiate a civil penalty action against the Company. The CPSC matter referred to the DOJ relates to five of the blister pack products. An unfavorable outcome in these matters could result in liabilities which could have a material adverse effect on the Company.

Namenda United States Litigations

In August 2015, Sergeants Benevolent Assoc. Health & Welfare Fund (Sergeants) filed suit against the Company in the United States District Court for the Southern District of New York. Sergeants alleged that certain parties, including the Company, violated federal antitrust laws as a consequence of having settled patent litigation related to the Alzheimer s drug Namenda® (memantine) tablets during a period from about 2009 until 2010. Sergeants seeks to represent a class of end-payor purchasers of Namenda® tablets (i.e., insurers, other third-party payors and consumers).

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

All defendants, including the Company, moved to dismiss the claims. On September 13, 2016, the Court denied these motions. However, the Sergeants case is stayed pending resolution of similar claims in another case in which the Company is not a party (*JM Smith Corp. v. Actavis PLC*). The plaintiff in the *JM Smith* case has served the Company with a subpoena, seeking specified documents.

Four other class action complaints, each containing similar allegations to the Sergeants complaint, have also been filed in the Southern District of New York. However, two of those complaints were voluntarily dismissed, and the other two do not name the Company as a defendant.

In addition, the State of New York filed an antitrust case in the Southern District of New York. The case brought by the State of New York contained some (but not all) of the allegations set forth in the class action complaints, but the Company was not named as a party. The case brought by the State of New York was dismissed by stipulation on November 30, 2015.

The Company believes that the likelihood of any liability that may arise on account of alleged violation of federal antitrust laws is not probable. Accordingly, no provision has been made in these interim financial statements.

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DR. REDDY S LABORATORIES LIMITED

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in millions, except share and per share data)

22. Contingencies (continued)

Product and patent related matters (continued)

Class Action and Other Civil Litigation on Pricing/Reimbursement Matters

On December 30, 2015 and on February 4, 2016, respectively, a class action complaint and another complaint (not a class action) were filed against the Company and eighteen other pharmaceutical defendants in State Court in the Commonwealth of Pennsylvania. In these actions, the class action plaintiffs allege that the Company and other defendants, individually or in some cases in concert with one another, have engaged in pricing and price reporting practices in violation of various Pennsylvania state laws. More specifically, the plaintiffs allege that: (1) the Company provided false and misleading pricing information to third party drug compendia companies for the Company's generic drugs, and such information was relied upon by private third party payers that reimbursed for drugs sold by the Company in the United States, and (2) the Company acted in concert with certain other defendants to unfairly raise the prices of generic divalproex sodium ER (bottle of 80, 500 mg tablets ER 24H) and generic pravastatin sodium (bottle of 500, 10 mg tablets). The Company disputes these allegations and intends to vigorously defend against these allegations.

Further, on November 17, 2016, certain class action complaints were filed against the Company and a number of other pharmaceutical companies as defendants in the United States District Court for the Eastern District of Pennsylvania. These complaints allege that the Company and the other named defendants have engaged in a conspiracy to fix prices and to allocate bids and customers in the sale of pravastatin sodium tablets and divalproex sodium extended-release tablets in the United States. The Company denies any wrongdoing and intends to vigorously defend against these allegations.

The Company believes that the likelihood of any liability that may arise on account of any of these complaints is not probable. Accordingly, no provision has been made in these interim financial statements.

Civil litigation with Mezzion

On January 13, 2017, Mezzion Pharma Co. Ltd. and Mezzion International LLC (collectively, Mezzion) filed a complaint in the New Jersey Superior Court against the Company and its wholly owned subsidiary in the United States. The complaint pertains to production and supply of active pharmaceutical ingredient (API) for udenafil (a patented compound) and udenafil finished dosage product during a period from 2007 to 2015. Mezzion alleges that the Company failed to comply with the U.S. FDA current Good Manufacturing Practices (cGMP) at the time of manufacture of the API and finished dosage forms of udenafil and, consequently, that this resulted in a delay in the filing of the NDA for the product by Mezzion. The Company denies any wrongdoing or liability in this regard and intends to vigorously defend against the claims asserted in Mezzion's Complaint.

Environmental matters

Land pollution

The Indian Council for Environmental Legal Action filed a writ in 1989 under Article 32 of the Constitution of India against the Union of India and others in the Supreme Court of India for the safety of people living in the Patancheru and Bollaram areas of Medak district of the then existing undivided state of Andhra Pradesh. The Company has been named in the list of polluting industries. In 1996, the Andhra Pradesh District Judge proposed that the polluting industries compensate farmers in the Patancheru, Bollaram and Jeedimetla areas for discharging effluents which damaged the farmers' agricultural land. The compensation was fixed at Rs.0.0013 per acre for dry land and Rs.0.0017 per acre for wet land. Accordingly, the Company has paid a total compensation of Rs.3. The Company believes that the likelihood of additional liability is remote. The Andhra Pradesh High Court disposed of the writ petition on February 12, 2013 and transferred the case to the National Green Tribunal (NGT), Chennai, India. The interim orders passed in the writ petitions will continue until the matter is decided by the NGT. The NGT has, through its order dated October 30, 2015, constituted a Fact Finding Committee. The NGT has also permitted the alleged polluting industries to appoint a person on their behalf in the Fact Finding Committee. However, the Company along with the alleged polluting industries have challenged the constitution and composition of the Fact Finding Committee. The NGT has directed that until all the applications challenging the constitution and composition of the Fact Finding Committee are disposed of, the Fact Finding Committee shall not commence its operation.

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DR. REDDY S LABORATORIES LIMITED

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in millions, except share and per share data)

22. Contingencies (continued)

Environmental matters (continued)

Water pollution and air pollution

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

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

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

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

Indirect taxes related matters

Distribution of input service tax credits

The Central Excise Authorities have issued various show cause notices to the Company objecting to the Company's methodology of distributing input service tax credits claimed for one of the Company's facilities. The below table

shows the details of each such show cause notice, the amount demanded and the current status of the Company's responsive actions.

Period covered

| under the notice | Amount demanded | Status |
|------------------------------|--|---|
| March 2008 to September 2009 | Rs.102 plus penalties of Rs.102 and interest thereon | The Company has filed an appeal before the CESTAT. |
| October 2009 to March 2011 | Rs.125 plus penalties of Rs.100 and interest thereon | The Company has filed an appeal before the CESTAT. |
| April 2011 to March 2012 | Rs.51 plus interest and penalties | The Company has filed an appeal before the CESTAT. |
| April 2012 to March 2013 | Rs.54 plus interest and penalties | The Company has filed an appeal before the CESTAT. |
| April 2013 to March 2014 | Rs.69 plus interest and penalties | The Company has filed an appeal before the CESTAT. |
| April 2014 to March 2015 | Rs.108 plus interest and penalties | The Company has responded to such show cause notice and is currently awaiting a hearing with the Central Excise Commissioner. |

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

The Company believes that the likelihood of any liability that may arise on account of the allegedly inappropriate distribution of input service tax credits is not probable. Accordingly, no provision relating to these claims has been made in these interim financial statements as of December 31, 2016.

Value Added Tax (VAT) matter

The Company received various show cause notices from the Government of Telangana's Commercial Taxes Department objecting to the Company's methodology of calculation of VAT input credit. The below table shows the details of each of such show cause notice, the amount demanded and the current status of the Company's responsive actions.

| Period covered under the notice | Amount demanded | Status |
|--|------------------------|--|
| April 2006 to March 2009 | Rs.66 plus 10% penalty | The Company has filed an appeal before the Sales Tax Appellate Tribunal. |
| April 2009 to March 2011 | Rs.59 plus 10% penalty | The Company has filed an appeal before the Sales Tax Appellate Tribunal. |
| April 2011 to March 2013 | Rs.16 plus 10% penalty | The Appellate Deputy Commissioner issued an order partially in favor of the Company. |

The Company has recorded a provision of Rs.27 as of December 31, 2016, and believes that the likelihood of any further liability that may arise on account of the allegedly inappropriate claims to VAT credits is not probable.

Others

Additionally, the Company is in receipt of various show cause notices from the Indian Sales Tax authorities. The disputed amount is Rs.66. The Company has responded to such show cause notices and believes that the chances of any liability arising from such notices are less than probable. Accordingly, no provision is made in these interim financial statements as of December 31, 2016

Fuel Surcharge Adjustments

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

After taking into account all of the available information and legal provisions, the Company has recorded Rs.219 as the potential liability towards FSA charges. The total amount approved by APERC for collection by the power distribution companies from the Company in respect of FSA charges for the period from April 1, 2008 to March 31, 2013 is Rs.482. As of March 31, 2016, the Company has made payments under protest of Rs.354 as demanded by the power distribution companies as part of monthly electricity bills. The Company remains exposed to additional financial liability should the orders passed by the APERC be upheld by the Courts.

During the three months ended June 30, 2016, the Supreme Court of India dismissed the Special Leave Petition filed by the Company in this regard for the period from April 1, 2012 to March 31, 2013. As a result, for the quarter ended June 30, 2016, the Company recognized an expenditure of Rs.55 (by de-recognizing the payments under protest) representing the FSA charges for the period from April 1, 2012 to March 31, 2013.

Direct taxes related matters

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

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DR. REDDY S LABORATORIES LIMITED

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in millions, except share and per share data)

22. Contingencies (continued)

Direct taxes related matters (continued)

Additionally, the Company is contesting various other disallowances by the Indian Income Tax authorities. The associated tax impact is Rs.1,555. The Company believes that the chances of an unfavorable outcome in each of such disallowances are less than probable and accordingly, no provision is made in these interim financial statements as of December 31, 2016.

During the years ended March 31, 2014, 2015 and 2016, Industrias Quimicas Falcon de Mexico, S.A. de CV, a wholly-owned subsidiary of the Company in Mexico, received a notice from Mexico's Tax Administration Service, *Servicio de Administracion Tributaria* (SAT), with respect to disallowance on account of transfer pricing adjustments pertaining to the calendar years ended on December 31, 2006, December 31, 2007 and December 31, 2008. The associated tax impact is Rs.568 (MXN 172.5). The Company disagrees with the SAT's allegations and filed an appeal with the SAT. The Company believes that the likelihood of any liability that may arise on account of this litigation is not probable. Accordingly, no provision has been made in these interim financial statements as of December 31, 2016.

Others

Additionally, the Company is involved in other disputes, lawsuits, claims, governmental and/or regulatory inspections, inquiries, investigations and proceedings, including patent and commercial matters that arise from time to time in the ordinary course of business. Except as discussed above, the Company does not believe that there are any such contingent liabilities that are expected to have any material adverse effect on its financial statements.

23. Collaboration agreement with Curis, Inc.

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

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

As partial consideration for the collaboration, pursuant to a Stock Purchase Agreement dated January 18, 2015, Curis issued to Aurigene 17.1 million shares of its common stock, representing 19.9% of its outstanding common stock immediately prior to the transaction (approximately 16.6% of its outstanding common stock immediately after the transaction). The shares issued to Aurigene are subject to a lock-up agreement until January 18, 2017, with the shares being released from such lock-up in 25% increments on each of July 18, 2015, January 18, 2016, July 18, 2016 and January 18, 2017, subject to acceleration of release of all the shares in connection with a change of control of Curis. As of December 31, 2016, lock-up restrictions were released on an aggregate of 12.825 million shares of Curis common stock, representing 75% of the shares which Aurigene received from Curis in 2015. In connection with the issuance of such shares, Curis and Aurigene entered into a Registration Rights Agreement dated January 18, 2015 which provides for certain registration rights with respect to resale of the shares. The common stock of Curis is listed for quotation on the NASDAQ Global Market.

The fair value of the shares of Curis common stock on the date of the Stock Purchase Agreement was Rs.1,452 (U.S.\$23.5).

Revenues under the Collaboration Agreement consist of upfront consideration (including the shares of Curis common stock) and the development and commercial milestone payments described below, which are deferred and recognized as revenue over the period for which Aurigene has continuing performance obligations.

Under the Collaboration Agreement, Aurigene is entitled to development and commercial milestone payments as follows:

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

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

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

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DR. REDDY S LABORATORIES LIMITED

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in millions, except share and per share data)

23. Collaboration agreement with Curis, Inc. (continued)

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

On September 7, 2016, the Collaboration Agreement was amended to provide for the issuance to Aurigene of approximately 10.2 million shares of Curis common stock in lieu of receiving up to U.S.\$24.5 of milestone and other payments from Curis that could have become due under the Collaboration Agreement. These shares of Curis common stock are recorded at U.S.\$1.84 per share, which is equal to the market price of such shares of common stock on the date of issuance, amounting to an aggregate market value of Rs.1,247 (U.S.\$18.8).

These additional shares are also subject to a lock-up agreement which is similar to the lock-up for the original Curis shares the Company received. However, this lock-up remains effective until September 7, 2018, with shares being released from such lock-up in 25% increments on each of March 7, 2017, September 7, 2017, March 7, 2018 and September 7, 2018, subject to acceleration of release of all the shares in connection with a change of control of Curis.

The Company has evaluated the transaction under IAS 28, Investments in associates and Joint Ventures, and believes that the Company does not have any significant influence with respect to Curis. Accordingly, all of the shares of Curis common stock are classified as available-for-sale financial instruments and are re-measured at fair value at every reporting date. Accordingly, gain of Rs.2,848 arising from changes in the fair value of such shares of common stock was recorded in other comprehensive income as of December 31, 2016.

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

24. Agreement with Merck Serono

On June 6, 2012, the Company and the biosimilars division of Merck KGaA, Darmstadt, Germany, formerly known as Merck Serono (hereinafter, Merck KGaA), entered into a collaboration agreement to co-develop a portfolio of biosimilar compounds in oncology, primarily focused on monoclonal antibodies. The arrangement covers co-development, manufacturing and commercialization of the compounds around the globe, with some specific country exceptions. During the year ended March 31, 2016, the collaboration agreement was amended to rearrange and realign the development of compounds, territory rights and royalty payments. Both parties will undertake commercialization based on their respective regional rights as defined in the agreement. The Company will lead and support early product development towards or including Phase I development. Merck KGaA will carry out manufacturing of the compounds and will lead further development for its territories. In its exclusive and co-exclusive

territories, the Company will carry out its own development, wherever applicable, for commercialization. As before, the Company will continue to receive royalty payments upon commercialization by Merck KGaA in its territories.

During the three months ended December 31, 2015, the Company received from Merck KGaA certain amounts relating to its share of development costs and other amounts linked to the achievement of milestones for the development of compounds under the collaboration agreement, as amended.

Furthermore, during the three months ended December 31, 2016, the Company received from Merck KGaA payments of U.S.\$1 towards achievement of a milestone for the development of a compound under the collaboration agreement.

25. Agreement with Pierre Fabre

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

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

During the three months ended September 30, 2015, Aurigene entered into another agreement with Pierre Fabre to transfer back to Aurigene the rights earlier out-licensed for the development and commercialization of AUNP-12. As a result of such arrangement, Aurigene paid to Pierre Fabre a portion of the upfront consideration received and retained and recognized the remaining upfront consideration as revenue, as there are no pending performance obligations.

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(in millions, except share and per share data)

26. Asset purchase agreement with Hatchtech Pty Limited

On September 7, 2015, the Company entered into an asset purchase agreement with Hatchtech Pty Limited (Hatchtech) for the purchase of intellectual property rights to an innovative prescription head lice product, Xeglyze Lotion. The exclusive rights for this product are applicable for the territories of the United States, Canada, India, Russia and other countries of the former Soviet Union, Australia, New Zealand and Venezuela.

As partial consideration for the purchase of these assets, the Company paid Hatchtech an upfront amount of Rs.606 (U.S.\$9.25). In addition to the foregoing payments, the Company is also required to pay certain development and commercial milestone related payments to Hatchtech for purchase of these assets.

As of December 31, 2016, the Company has paid Hatchtech development milestone payments of Rs.341 (U.S.\$5).

The transaction was recorded as an acquisition of product related intangible asset. As the intangible asset is not yet available for use, it is not subject to amortization.

The carrying amount of the intangible asset as on December 31, 2016 was Rs.996 (U.S.\$14.66).

27. Asset purchase agreement with Alchemia

In November 2015, the Company entered into an asset purchase agreement with Alchemia Limited (Alchemia) for the purchase of worldwide, exclusive intellectual property rights to fondaparinux sodium. The closing conditions for the transaction included the approval of Alchemia s shareholders which was obtained on November 10, 2015. As per the terms of the agreement, the Company paid net consideration of Rs.1,158 (U.S.\$17.5) upon the closing of the transaction in exchange for the acquired intellectual property rights.

Prior to this asset purchase agreement, the Company had worldwide, exclusive rights from Alchemia to market fondaparinux sodium in all territories in exchange for Alchemia s right to an agreed share of the net profits generated from sales in those territories. As a result of the closing of the asset purchase agreement, Alchemia is not entitled to receive any further profit share revenues from fondaparinux sales on or after July 1, 2015.

The transaction was recorded as an acquisition of technology related intangible asset with an estimated useful life of 4 years.

The carrying amount of the intangible asset as on December 31, 2016 was Rs.825 (U.S.\$17.5).

28. Receipt of warning letter from the U.S. FDA

The Company received a warning letter dated November 5, 2015 from the U.S. FDA relating to cGMP deviations at its API manufacturing facilities at Srikakulam, Andhra Pradesh and Miryalaguda, Telangana, as well as violations at

its oncology formulation manufacturing facility at Duvvada, Visakhapatnam, Andhra Pradesh previously raised in Form 483 observations following inspections of these sites by the U.S. FDA in November 2014, January 2015 and February-March 2015, respectively.

The warning letter does not restrict production or shipment of the Company's products from these facilities. However, unless and until the Company is able to correct outstanding issues to the U.S. FDA's satisfaction, the U.S. FDA may withhold approval of new products and new drug applications of the Company, refuse admission of products manufactured at the facilities noted in the warning letter into the United States, and/or take additional regulatory or legal action against the Company. Any such further action could have a material and negative impact on the Company's ongoing business and operations.

The Company submitted its response to the warning letter on December 7, 2015. Further, the Company provided updates on the progress of its corrective actions to the U.S. FDA in January 2016, March 2016, May 2016 and August 2016. The U.S. FDA has intimated to the Company that reinspection of the aforementioned manufacturing facilities will occur in February and March 2017.

The Company believes that it can resolve the issues raised by the U.S. FDA satisfactorily in a timely manner. The Company takes the matters identified by U.S. FDA in the warning letter seriously, and will continue to work diligently to address the observations identified in the warning letter, and is concurrently continuing to develop and implement its corrective action plans relating to the warning letter.

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(in millions, except share and per share data)

29. Venezuela operations

Dr. Reddy s Venezuela, C.A., a wholly-owned subsidiary of the Company, is primarily engaged in the import of pharmaceutical products from the parent company and other subsidiaries of the Company and the sale of such products in Venezuela.

Overhaul of the exchange rate system in Venezuela

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

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

In February 2016, the Venezuelan government announced changes to its foreign currency exchange mechanisms, including the devaluation of its official exchange rate. The following changes became effective as of March 10, 2016:

- The CENCOEX preferential rate was replaced with a new DIPRO rate. The DIPRO rate is only available for purchases and sales of essential items. Further, the preferential exchange rate was devalued from 6.3 VEF per U.S.\$1.00 to 10 VEF per U.S.\$1.00.
- The SICAD exchange rate mechanism, which last auctioned USD for approximately 13 VEF per U.S.\$1.00, was eliminated.
- The SIMADI exchange rate mechanism was replaced with a new DICOM rate, which governs all transactions not subject to the DIPRO exchange rate and will fluctuate according to market supply and demand. As of March 31, 2016, the DICOM exchange rate was 272.5 VEF per U.S.\$1.00.

During the year ended March 31, 2016, the Company received approvals from the Venezuelan government for remittance of only U.S.\$4 towards the importation of pharmaceutical products at the CENCOEX preferential rate.

The Company fully considered all the aforesaid developments, facts and circumstances and, following the guidance available in IAS 21, believes that it is appropriate to use the SICAD/DICOM rate (i.e., 272.5 VEF per U.S.\$1.00) for translating the monetary assets and liabilities of the Venezuelan subsidiary as at various reporting dates. Tabulated

below is the impact of the foregoing on the financial statements of the Company for different financial years/periods:

| Particulars | Year ended March 31, 2015 | Nine months ended December 31, 2015 | Three months ended March 31, 2016 | Year ended March 31, 2016 |
|--|---------------------------------|---|---|---------------------------------|
| Foreign exchange loss on account of currency devaluation and translation of monetary assets and liabilities using SIMADI / DICOM rate recorded under finance expense | Rs.843 | Rs.776 | Rs.3,845 | Rs.4,621 |
| Impact of inventory write down and reversal of export incentives recorded under cost of revenues | - | - | 341 | 341 |
| Impairment of property, plant and equipment recorded under selling, general and administrative expenses | - | - | 123 | 123 |
| Total | Rs.843 | Rs.776 | Rs.4,309 | Rs.5,085 |

Including the foreign exchange loss of Rs.843 recognized during the year ended March 31, 2015, total loss recognized on account of operations in Venezuela was Rs.5,928 as of March 31, 2016.

Notwithstanding the ongoing uncertainty, the Company continues to actively engage with the Venezuelan Government and seek approval to repatriate funds at preferential rate.

Update during the nine months ended December 31, 2016

Revenues for the nine months ended December 31, 2016 and 2015 were Rs.17 (VEF 163) and Rs.4,327(VEF 422), respectively. During the nine months ended December 31, 2016, the Company received approvals from the Venezuelan government to repatriate U.S.\$0.4 at the preferential rate of 10 VEF per U.S.\$1.00.

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DR. REDDY S LABORATORIES LIMITED

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in millions, except share and per share data)

29. Venezuela operations (continued)

Consistent with the position taken as on March 31, 2016, the Company applied the DICOM rate for translating the financial statements of the Venezuelan subsidiary for the nine months ended December 31, 2016. As a result, foreign exchange loss of Rs.35 was recognized for the nine months ended December 31, 2016. As of December 31, 2016, the DICOM rate was 673.76 VEF per U.S.\$1.00.

30. License agreement with XenoPort

On March 28, 2016, the Company and XenoPort, Inc. (XenoPort) entered into a license agreement pursuant to which the Company was granted exclusive U.S. rights for the development and commercialization of XenoPort s clinical stage oral new chemical entity. The Company plans to develop the in-licensed compound as a potential treatment for moderate-to-severe chronic plaque psoriasis and for relapsing forms of multiple sclerosis.

The transaction was subject to satisfaction of certain customary closing conditions, including among other things the expiration or early termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the HSR Act), following the Company s premerger notification filing under the HSR Act with the applicable governmental authorities regarding its intention to acquire these rights.

Upon the completion of all closing conditions, in May 2016, the Company paid Rs.3,159 (U.S.\$47.5) as an up-front payment and an additional Rs.169 (U.S.\$2.5) for the transfer of certain clinical trials material as per the terms of the agreement.

In addition to the up-front payment, XenoPort will also be eligible to receive up to U.S.\$190 upon the achievement by the Company of certain regulatory milestones, which could be achieved over a period of several years. Further, XenoPort will be eligible to receive up to U.S.\$250 upon the achievement by the Company of certain commercial milestones, and up to mid-teens percentage rate royalty payments based on the Company s net sales of the product in the United States.

The upfront consideration is recorded as an acquisition of a product related intangible asset. As the intangible asset is not yet available for use, it is not subject to amortization. Consideration paid for the purchase of clinical trials materials is recognized as research and development expenditure in these interim financial statements for the nine months ended December 31, 2016.

The carrying amount of the intangible asset as on December 31, 2016 was Rs.3,278 (U.S.\$48.25).

31. Asset purchase agreement with Ducere Pharma LLC

On May 23, 2016, the Company entered into and consummated an asset purchase agreement with Ducere Pharma LLC for the purchase of certain pharmaceutical brands for a total consideration of Rs.1,148 (U.S.\$17). The acquisition is expected to strengthen the Company's presence in the dermatology, cough-and-cold and pain therapeutic areas forming part of the Company's over-the-counter (OTC) business in the United States.

The Company recorded the acquisition of these brands as product related intangibles. The Company estimated that the useful life of these brands is 15 years.

The carrying value of these intangibles as on December 31, 2016 was Rs.1,068 (U.S.\$15.83)

32. Asset purchase agreement with Teva Pharmaceutical Industries Limited

On June 10, 2016, the Company entered into a definitive purchase agreement with Teva Pharmaceutical Industries Limited (Teva) and an affiliate of Allergan plc (Allergan) to acquire eight Abbreviated New Drug Applications (ANDAs) in the United States for U.S.\$350 in cash at closing. The acquired products were divested by Teva as a precondition to the closing of its acquisition of Allergan's generics business. The acquisition of these ANDAs was also contingent on the closing of the Teva/Allergan generics purchase transaction and approval by the U.S. Federal Trade Commission.

The acquisition was consummated on August 3, 2016 upon the completion of all closing conditions, and the Company paid U.S.\$350 as the consideration for the acquired ANDAs.

Table of Contents**DR. REDDY S LABORATORIES LIMITED****NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****(in millions, except share and per share data)****32. Asset purchase agreement with Teva Pharmaceutical Industries Limited (continued)**

Tabulated below are the details of products acquired and the respective purchase prices:

| Particulars of the ANDA | U.S.\$ | Rs. |
|---|---------------|---------------|
| Ethinyl estradiol/Ethonogestrel Vaginal Ring (a generic equivalent to NuvaRing) | 185 | 12,351 |
| Buprenorphine HCl/Naloxone HCl Sublingual Film (a generic equivalent to Suboxone sublingual film) | 70 | 4,673 |
| Ramelteon Tablets (a generic equivalent to Rozerem) | 34 | 2,270 |
| Others | 61 | 4,072 |
| Grand Total | 350 | 23,366 |

The Company recorded the aforesaid acquisition of these ANDAs as product related intangibles. As these ANDAs are not available for use yet, they are not subject to amortization. The aforesaid acquisition forms part of Company's Global Generics segment.

The carrying value of these intangibles as on December 31, 2016 was Rs.23,874 (U.S.\$351.48).

33. Agreement with Gland Pharma Limited

On November 29, 2016, the Company entered into an agreement with Gland Pharma Limited (Gland) to license, market and distribute eight injectable ANDAs. Pursuant to the arrangement, the Company will pay Gland U.S.\$6.8 as consideration for in-licensing the aforesaid eight ANDAs upon completion of certain milestones by Gland.

The carrying value of the intangible as on December 31, 2016 was Rs.211 (U.S.\$3.1).

34. Subsequent events

None.

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

The following discussion and analysis should be read in conjunction with the audited consolidated financial statements, the related cash flow statement, 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, 2016, and the interim financial statements included in our reports on Form 6-K for the three months ended June 30, 2016 and the six months ended September 30, 2016, all of which are on file with the SEC, and the interim financial statements contained in this report on Form 6-K.

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

Section A:**Three months ended December 31, 2016 compared to the three months ended December 31, 2015**

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

For the three months ended December 31,

| | 2016 | | 2015 | | Increase/ (Decrease) |
|---|--------------------|------------------|--------------------|------------------|-------------------------|
| | Rs. in millions | % of Revenues | Rs. in millions | % of Revenues | |
| Revenues | Rs.37,065 | 100.0% | Rs.39,679 | 100.0% | (7%) |
| Gross profit | 21,899 | 59.1% | 23,590 | 59.5% | (7%) |
| Selling, general and administrative expenses | 11,341 | 30.6% | 12,039 | 30.3% | (6%) |
| Research and development expenses | 4,956 | 13.4% | 4,095 | 10.3% | 21% |
| Other (income) / expense, net | (187) | (0.5%) | (122) | (0.3%) | 54% |
| Results from operating activities | 5,789 | 15.6% | 7,578 | 19.1% | (24%) |
| Finance (expense) / income, net | 44 | 0.1% | (62) | (0.2%) | 171% |
| Share of profit of equity accounted investees, net of tax | 89 | 0.2% | 64 | 0.2% | 39% |
| Profit before tax | 5,922 | 16.0% | 7,580 | 19.1% | (22%) |
| Tax expense | 1,221 | 3.3% | 1,788 | 4.5% | (32%) |
| Profit for the period | Rs.4,701 | 12.7% | Rs.5,792 | 14.6% | (19%) |

Revenues

Our overall consolidated revenues were Rs.37,065 million during the three months ended December 31, 2016, a decrease of 7% as compared to Rs.39,679 million during the three months ended December 31, 2015.

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

Table of Contents**For the three months ended December 31,**

| | 2016 | | 2015 | | Increase/ (Decrease) |
|---|--------------------|------------------------|--------------------|------------------------|-------------------------|
| | Rs. in millions | Revenues % of Total | Rs. in millions | Revenues % of Total | |
| Global Generics | Rs.30,638 | 83% | Rs.33,558 | 84% | (9%) |
| Pharmaceutical Services and Active Ingredients | 5,399 | 14% | 5,082 | 13% | 6% |
| Proprietary Products | 603 | 2% | 654 | 2% | (8%) |
| Others | 425 | 1% | 385 | 1% | 10% |
| Total | Rs.37,065 | 100% | Rs.39,679 | 100% | (7%) |

Segment Analysis**Global Generics**

Revenues from our Global Generics segment were Rs.30,638 million during the three months ended December 31, 2016, a decrease of 9% as compared to Rs.33,558 million during the three months ended December 31, 2015.

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

- a decrease of approximately 9% resulting from the net impact of changes in sales prices of the products in this segment; and
- a decrease of approximately 3% resulting from a net decrease in the sales volumes of existing products in this segment, which includes lower sales from Venezuela due to the voluntary reduction of our supply of products to this country as a risk mitigation approach; partially offset by
- an increase of approximately 3% resulting from the introduction of new products during the intervening period.

North America (the United States and Canada): Our Global Generics segment's revenues from North America (the United States and Canada) were Rs.16,595 million during the three months ended December 31, 2016, a decrease of 15% as compared to the three months ended December 31, 2015. 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 18% in the three months ended December 31, 2016 as compared to the three months ended December 31, 2015.

This revenue decrease was largely attributable to the following:

- a loss of market share of certain of our existing products, such as valgancyclovir, azacitidine, sumatriptan injection, decitabine injection, and OTC omeprazole magnesium; and
- a significant decrease in our sale of products to McNeil Consumer Healthcare following the conclusion of some of our existing supply arrangements with them; partially offset by
- revenues from new products launched between January 1, 2016 and December 31, 2016, the major ones being nitroglycerin SLT (sublingual tablets), aripiprazole, omeprazole sodium bicarbonate, lamotrigine ODT (orally disintegrating tablets), and naproxen sodium IR (immediate-release).

During the three months ended December 31, 2016, we made 9 new ANDA filings to the U.S. FDA. As of December 31, 2016 our cumulative filings were 254, which includes 3 NDA filings under section 505(b)(2) and 251 ANDA filings. These 251 ANDA filings include 8 acquired ANDAs from Teva Pharmaceutical Industries Ltd. As of December 31, 2016, cumulatively 92 generic filings are pending for approval with the U.S. FDA (90 ANDAs and 2 NDAs under 505(b)(2) route). Of these 90 ANDAs which are pending for approval, 59 are Paragraph IV filings, out of which we believe 20 have First to File status. Further, these 90 ANDAs which are pending for approval include 7 ANDAs acquired from Teva Pharmaceutical Industries Ltd, of which 6 are Paragraph IV filings.

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India: Our Global Generics segment's revenues from India during the three months ended December 31, 2016 were Rs.5,947 million, an increase of 2% as compared to the three months ended December 31, 2015. This growth was largely attributable to revenues from new brands launched in India between January 1, 2016 and December 31, 2016, which was partially offset by the decrease in sales prices and decrease in the sales volumes of our existing products. According to IMS Health in its Moving Quarterly Total report for the three months ended November 30, 2016, our secondary sales in India grew by 1.7% during such period, as compared to the India pharmaceutical market's growth of 8.1% during such period. During the three months ended December 31, 2016, we launched 7 new brands in India.

Emerging Markets: Our Global Generics segment's revenues from Emerging Markets (which is comprised of Russia, other countries of the former Soviet Union, Romania and certain other countries from our Rest of the World markets, primarily South Africa and Australia) during the three months ended December 31, 2016 were Rs.5,948 million, a decrease of 7% as compared to the three months ended December 31, 2015. During the three months ended December 31, 2016, revenues from Venezuela were Rs.8 million as compared to Rs.1,222 million during the three months ended December 31, 2015. Excluding the revenues from Venezuela, our Global Generics Segment's revenues from our Emerging Markets during the three months ended December 31, 2016 increased by 15% as compared to the three months ended December 31, 2015. This revenue increase was largely attributable to increased revenues from other countries of the former Soviet Union, as described below.

Russia: Our Global Generics segment's revenues from Russia during the three months ended December 31, 2016 were Rs.3,087 million, a decrease of 2% as compared to the three months ended December 31, 2015. In Russian rouble absolute currency terms (i.e., Russian roubles without taking into account the effect of currency exchange rates), such revenues decreased by 5% during the three months ended December 31, 2016 as compared to the three months ended December 31, 2015. This revenue decrease was largely attributable to decreased sales volumes of our existing products. Our over-the-counter (OTC) division's revenues from Russia during the three months ended December 31, 2016 were 39% of our total revenues from Russia.

According to IMS Health, as per its report for the three months ended December 31, 2016, our sales value (in Russian roubles) growth and volume growth from Russia, as compared to the Russian pharmaceutical market sales value (in Russian roubles) growth and volume growth during the three months ended December 31, 2016 was as follows:

For the three months ended December 31, 2016

| | Dr. Reddy's Laboratories | | Russian pharmaceutical market | |
|------------------------|---------------------------------|---------------|--------------------------------------|---------------|
| | Sales value | Volume | Sales value | Volume |
| Prescription (Rx) | (2.56%) | (2.88%) | 16.12% | 11.14% |
| Over-the-counter (OTC) | 7.81% | 17.92% | 19.17% | 8.46% |
| Total (Rx + OTC) | 0.77% | 1.70% | 17.75% | 9.23% |

As per the above referenced IMS Health report, our volume market share during the three months ended December 31, 2016 and during the three months ended December 31, 2015 was as follows:

For the three months ended December 31,

| | 2016 | 2015 |
|------------------------|-------------|-------------|
| Prescription (Rx) | 3.93% | 4.53% |
| Over-the-counter (OTC) | 0.66% | 0.52% |
| Total (Rx + OTC) | 1.48% | 1.73% |

Other countries of the former Soviet Union and Romania: Our Global Generics segment's revenues from other countries of the former Soviet Union and Romania were Rs.1,013 million during the three months ended December 31, 2016, an increase of 16% as compared to the three months ended December 31, 2015. This increase was largely attributable to the increased revenues from our existing products, as well as revenues from new products launched between January 1, 2016 and December 31, 2016, including omez injection, bortezomib, flucold, levolet and telmisartan.

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Rest of the World Markets: We refer to all markets of this segment other than North America (the United States and Canada), Europe, Russia and other countries of the former Soviet Union, Romania and India as our Rest of the World markets. Our Global Generics segment's revenues from our Rest of the World markets were Rs.1,848 million during the three months ended December 31, 2016, a decrease of 23% as compared to the three months ended December 31, 2015. The decrease was largely due to decreased revenues in Venezuela primarily due to the reduction in the sales volume of our existing products. Our revenues from Venezuela were Rs.8 million for the three months ended December 31, 2016, as compared to Rs.1,222 for the three months ended December 31, 2015. This reduction in sales was primarily attributable to the ongoing economic crisis in the country and, correspondingly, our risk mitigation approach of moderating the supply of products to this country. Excluding the revenues from Venezuela, our revenues from our Rest of the World markets during the three months ended December 31, 2016 increased by 57% as compared to the three months ended December 31, 2015.

Europe: Our Global Generics segment's revenues from Europe are primarily derived from Germany, the United Kingdom and our out-licensing business across Europe, and were Rs.2,148 million during the three months ended December 31, 2016, an increase of 11% as compared to the three months ended December 31, 2015. This increase was primarily on account of:

- an increase in sales volumes of our existing products and increased participation in the competitive bidding tenders sponsored by statutory health insurance funds and other health insurance providers in Germany; and
- revenues from new products launched between January 1, 2016 and December 31, 2016, including buprenorphine and abacavir in the United Kingdom and imatinib and voriconazole in Germany.

Pharmaceutical Services and Active Ingredients (PSAI)

Our PSAI segment's revenues during the three months ended December 31, 2016 were Rs.5,399 million, an increase of 6% as compared to the three months ended December 31, 2015. After taking into account the impact of exchange rate fluctuations of the Indian rupee against multiple currencies in the markets in which we operate, this increase in revenues was largely attributable to:

- increased sales of active pharmaceutical ingredients during the three months ended December 31, 2016, primarily attributable to increased sales volumes of existing products, which increased our PSAI segment's revenues by approximately 4%; and
- increased customer orders for our pharmaceutical development services, which increased our PSAI segment's revenues by approximately 2%.

During the three months ended December 31, 2016, we filed 16 Drug Master Files (DMFs) worldwide. Cumulatively, our total worldwide DMFs as of December 31, 2016 were 782, including 202 DMFs in the United States.

Gross Profit

Our total gross profit was Rs.21,899 million during the three months ended December 31, 2016, representing 59.1% of our revenues for that period, as compared to Rs.23,590 million during the three months ended December 31, 2015, representing 59.5% of our revenues for that period.

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

| | For the three months ended December 31, | | | |
|--|--|-----------------------------|---------------------|-----------------------------|
| | 2016 | | 2015 | |
| | Rs. in millions | | | |
| | Gross Profit | % of Segment Revenue | Gross Profit | % of Segment Revenue |
| Global Generics | Rs.19,649 | 64.1% | Rs.22,017 | 65.6% |
| Pharmaceutical Services and Active Ingredients | 1,530 | 28.3% | 886 | 17.4% |
| Proprietary Products | 509 | 84.4% | 546 | 83.4% |
| Others | 211 | 49.6% | 141 | 36.8% |
| Total | Rs.21,899 | 59.1% | Rs.23,590 | 59.5% |

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After taking into account the impact of the exchange rate fluctuations of the Indian rupee against multiple currencies in the markets in which we operate, the gross profits from our Global Generics segment decreased to 64.1% during the three months ended December 31, 2016 from 65.6% during the three months ended December 31, 2015. This decrease was primarily on account of lower realizations due to increased competitive intensity in some of our key molecules across markets and increased overhead costs. Consequently, there was 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.

The gross profits from our PSAI segment increased to 28.3% during the three months ended December 31, 2016, from 17.4% during the three months ended December 31, 2015. This increase was primarily due to an increase in sales of products with higher gross profit margins during the three months ended December 31, 2016.

Selling, general and administrative expenses

Our selling, general and administrative expenses were Rs.11,341 million during the three months ended December 31, 2016, a decrease of 6% as compared to Rs.12,039 million during the three months ended December 31, 2015. After taking into account the impact of exchange rate fluctuations of the Indian rupee against multiple currencies in the markets in which we operate, this decrease was largely attributable to the following:

- decreased rent, rates and taxes, which decreased our selling, general and administrative expenses by approximately 1%;
- decreased legal and professional expenses, which decreased our selling, general and administrative expenses by approximately 1%; and
- decreased other costs, which decreased our selling, general and administrative expenses by approximately 5%; partially offset by
- increased sales and marketing expenses, which increased our selling, general and administrative expenses by approximately 2%.

As a proportion of our total revenues, our selling, general and administrative expenses increased to 30.6% during the three months ended December 31, 2016 from 30.3% during the three months ended December 31, 2015.

Research and development expenses

Our research and development expenses were Rs.4,956 million during the three months ended December 31, 2016, an increase of 21% as compared to Rs.4,095 million during the three months ended December 31, 2015. This increase was in accordance with our strategy to expand our research and development efforts in complex formulations, differentiated formulations and biosimilar compounds. In addition, our research and development expenses during the three months ended December 31, 2016 includes costs incurred towards the assets in-licensed from Xenoport, Inc. and Eisai Co., Ltd. Our research and development expenses increased to 13.4% of our total revenues during the three months ended December 31, 2016 from 10.3% of our total revenues during the three months ended December 31, 2015.

Other (income) / expense, net

Our net other income was Rs.187 million during the three months ended December 31, 2016, as compared to net other income of Rs.122 million during the three months ended December 31, 2015.

Finance (expense) / income, net

Our net finance income was Rs.44 million during the three months ended December 31, 2016 as compared to net finance expense of Rs.62 million during the three months ended December 31, 2015. The increase in net finance income was due to the following:

- net interest expense of Rs.53 million during the three months ended December 31, 2016, as compared to net interest income of Rs.164 million during the three months ended December 31, 2015;
- net foreign exchange loss of Rs.10 million during the three months ended December 31, 2016, as compared to net foreign exchange loss of Rs.297 million (which includes foreign exchange loss of Rs.637 million on translation of certain monetary assets and liabilities of our Venezuelan subsidiary) during the three months ended December 31, 2015; and
- profit on sale of investments of Rs.107 million during the three months ended December 31, 2016, as compared to profit on sale of investments of Rs.71 million during the three months ended December 31, 2015.

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Profit before tax

As a result of the above, our profit before tax was Rs.5,922 million during the three months ended December 31, 2016, a decrease of 22% as compared to Rs.7,580 million during the three months ended December 31, 2015.

Tax expense

Our consolidated weighted average tax rate was 20.6% during the three months ended December 31, 2016, as compared to 23.6% during the three months ended December 31, 2015.

Our tax expense was Rs.1,221 million during the three months ended December 31, 2016, as compared to Rs.1,788 million during the three months ended December 31, 2015.

Profit for the period

As a result of the above, our net profit was Rs.4,701 million during the three months ended December 31, 2016, representing 12.7% of our total revenues for such period, as compared to Rs.5,792 million during the three months ended December 31, 2015, representing 14.6% of our total revenues for such period.

Table of Contents**Section B:****Nine months ended December 31, 2016 compared to the nine months ended December 31, 2015**

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.

For the nine months ended December 31,

| | 2016 | | 2015 | | Increase/ (Decrease) |
|---|--------------------|------------------|--------------------|------------------|-------------------------|
| | Rs. in millions | % of Revenues | Rs. in millions | % of Revenues | |
| Revenues | Rs.105,267 | 100.0% | Rs.117,146 | 100.0% | (10%) |
| Gross profit | 60,174 | 57.2% | 71,005 | 60.6% | (15%) |
| Selling, general and administrative expenses | 35,399 | 33.6% | 34,070 | 29.1% | 4% |
| Research and development expenses | 14,972 | 14.2% | 12,955 | 11.1% | 16% |
| Other (income) / expense, net | (560) | (0.5%) | (567) | (0.5%) | (1%) |
| Results from operating activities | 10,363 | 9.8% | 24,547 | 21.0% | (58%) |
| Finance (expense) / income, net | 854 | 0.8% | (62) | (0.1%) | 1,482% |
| Share of profit of equity accounted investees, net of tax | 247 | 0.2% | 170 | 0.1% | 45% |
| Profit before tax | 11,464 | 10.9% | 24,655 | 21.0% | (54%) |
| Tax expense | 2,550 | 2.4% | 5,388 | 4.6% | (53%) |
| Profit for the period | Rs.8,914 | 8.5% | Rs.19,267 | 16.4% | (54%) |

Our overall consolidated revenues were Rs.105,267 million during the nine months ended December 31, 2016, a decrease of 10% as compared to Rs.117,146 million during the nine months ended December 31, 2015.

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

For the nine months ended December 31,

| | 2016 | | 2015 | | Increase/ (Decrease) |
|---|--------------------|------------------------|--------------------|------------------------|-------------------------|
| | Rs. in millions | Revenues % of Total | Rs. in millions | Revenues % of Total | |
| Global Generics | Rs.86,271 | 82% | Rs.97,287 | 83% | (11%) |
| Pharmaceutical Services and Active Ingredients | 15,876 | 15% | 16,614 | 14% | (4%) |
| Proprietary Products | 1,811 | 2% | 2,014 | 2% | (10%) |

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| | | | | | |
|--------------|-------------------|-------------|-------------------|-------------|--------------|
| Others | 1,309 | 1% | 1,231 | 1% | 6% |
| Total | Rs.105,267 | 100% | Rs.117,146 | 100% | (10%) |

Table of Contents**Segment Analysis*****Global Generics***

Revenues from our Global Generics segment were Rs.86,271 million during the nine months ended December 31, 2016, a decrease of 11% as compared to Rs.97,287 million during the nine months ended December 31, 2015.

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

- a decrease of approximately 9% resulting from the net impact of changes in sales prices of the products in this segment; and
- a decrease of approximately 7% resulting from a net decrease in the sales volumes of existing products in this segment, which includes lower sales from Venezuela due to the voluntary reduction of our supply of products to this country as a risk mitigation approach; partially offset by
- an increase of approximately 4% resulting from the introduction of new products during the intervening period;

North America (the United States and Canada): Our Global Generics segment's revenues from North America (the United States and Canada) during the nine months ended December 31, 2016 were Rs.48,252 million, a decrease of 15% as compared to the nine months ended December 31, 2015. 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 18% in the nine months ended December 31, 2016 as compared to the nine months ended December 31, 2015.

The following table sets forth, during the nine months ended December 31, 2016, products launched in North America (the United States and Canada):

| Product | Innovator's Brand | Innovator |
|---------------------------|--------------------------|------------------|
| Omeprazole Na Bicarbonate | Zegerid® | Santarus Inc. |
| Nitroglycerin SLT | Nitrostat® | Pfizer |
| Bupropion SR | Wellbutrin® SR | GSK |
| Paricalcitol Injection | Zemplar® | ABBVIE Inc. |
| Aripiprazole | Abilify® | Otsuka Pharma |
| Lamotrigine ODT | Lamictal® | Par Pharm |
| Raloxifene | Evista® | Prasco |
| Fluoxetine Tabs | Prozac® | Eli Lilly |

India: Our Global Generics segment's revenues from India were Rs.17,420 million during the nine months ended December 31, 2016, an increase of 9% as compared to the nine months ended December 31, 2015. During the nine months ended December 31, 2016, we launched 17 new brands in India.

Emerging Markets: Our Global Generics segment's revenues from Emerging Markets (which is comprised of Russia, other countries of the former Soviet Union, Romania and certain other countries from our Rest of the World markets, primarily South Africa and Australia) during the nine months ended December 31, 2016 were Rs.15,059 million, a decrease of 20% as compared to the nine months ended December 31, 2015. During the nine months ended December 31, 2016, revenues from Venezuela were Rs.17 million as compared to Rs.4,327 million during the nine months ended December 31, 2015. Excluding the revenues from Venezuela, our Global Generics Segment's revenues from our Emerging Markets during the nine months ended December 31, 2016, increased by 4% as compared to the nine months ended December 31, 2015.

Russia: Our Global Generics segment's revenues from Russia were Rs.8,112 million during the nine months ended December 31, 2016, a decrease of 3% as compared to the nine months ended December 31, 2015. In Russian rouble absolute currency terms (i.e., Russian roubles without taking into account the effect of currency exchange rates), such revenues increased by 2% during the nine months ended December 31, 2016 as compared to the nine months ended December 31, 2015. Our over-the-counter (OTC) division's revenues from Russia during the nine months ended December 31, 2016 were 39% of our total revenues from Russia.

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According to IMS Health, as per its report for the nine months ended December 31, 2016, our sales value (in Russian roubles) growth and volume growth from Russia, as compared to the Russian pharmaceutical market sales value (in Russian roubles) growth and volume growth during the nine months ended December 31, 2015 was as follows:

For the nine months ended December 31, 2016

| | Dr. Reddy s Laboratories | | Russian pharmaceutical market | |
|------------------------|---------------------------------|---------------|--------------------------------------|---------------|
| | Sales value | Volume | Sales value | Volume |
| Prescription (Rx) | 4.04% | 3.68% | 12.00% | 7.30% |
| Over-the-counter (OTC) | 6.92% | 13.03% | 14.12% | 4.56% |
| Total (Rx + OTC) | 5.11% | 6.05% | 13.11% | 5.35% |

As per the above referenced IMS Health report, our volume-based market share during the nine months ended December 31, 2016 and during the nine months ended December 31, 2015 was as follows:

For the nine months ended December 31,

| | 2016 | 2015 |
|------------------------|-------------|-------------|
| Prescription (Rx) | 4.42% | 4.60% |
| Over-the-counter (OTC) | 0.69% | 0.63% |
| Total (Rx + OTC) | 1.79% | 1.79% |

Other Countries of former Soviet Union and Romania: Our Global Generics segment s revenues from other countries of the former Soviet Union and Romania were Rs.2,583 million during the nine months ended December 31, 2016, a decrease of 4% as compared to the nine months ended December 31, 2015.

Rest of the World Markets: We refer to all markets of this segment other than North America (the United States and Canada), Europe, Russia, India and other countries of the former Soviet Union and Romania as our Rest of the World markets. Our Global Generics segment s revenues from our Rest of the World markets were Rs.4,364 million during the nine months ended December 31, 2016, a decrease of 44% as compared to the nine months ended December 31, 2015. The decrease was primarily attributable to the decrease in our revenues in Venezuela due to reductions in the sales volumes of existing products. Our revenues from Venezuela were Rs.17 million for the nine months ended December 31, 2016, as compared to Rs.4,327 million for the nine months ended December 31, 2015. This reduction in sales was primarily attributable to the ongoing economic crisis in the country and, correspondingly, our risk mitigation approach of moderating the supply of products to this country. Excluding the revenues from Venezuela, our revenues from our Rest of the World markets during the nine months ended December 31, 2016 increased by 27% as compared to the nine months ended December 31, 2015.

Europe: Our Global Generics segment s revenues from Europe were Rs.5,540 million during the nine months ended December 31, 2016, a decrease of 7% as compared to the nine months ended December 31, 2015.

Pharmaceutical Services and Active Ingredients (PSAI)

Our PSAI segment's revenues during the nine months ended December 31, 2016 were Rs.15,876 million, a decrease of 4% as compared to the nine months ended December 31, 2015. After taking into account the impact of exchange rate fluctuations of the Indian rupee against the multiple currencies in the markets in which we operate, this decrease was largely attributable to:

- decreased sales of active pharmaceutical ingredients during the nine months ended December 31, 2016, primarily attributable to decreased sales volumes of existing products, together with the net impact of changes in sales prices of existing products, all of which decreased our PSAI segment's revenues by approximately 7%; partially offset by
- increased customer orders in our pharmaceutical development services for certain products provided to innovator companies, which increased our PSAI segment's revenues by approximately 3%.

Table of Contents**Gross Profit**

Our total gross profit was Rs.60,174 million during the nine months ended December 31, 2016, representing 57.2% of our revenues for that period, as compared to Rs.71,005 million during the nine months ended December 31, 2015, representing 60.6% of our revenues for that period.

| | For the nine months ended December 31, | | | |
|---|---|---------------------------------|-------------------------|---------------------------------|
| | 2016 | | 2015 | |
| | Rs. in millions | | | |
| | Gross Profit | % of Segment Revenue | Gross Profit | % of Segment Revenue |
| Global Generics | Rs.54,055 | 62.7% | Rs.64,992 | 66.8% |
| Pharmaceutical Services and Active Ingredients | 3,932 | 24.8% | 3,744 | 22.5% |
| Proprietary Products | 1,541 | 85.1% | 1,684 | 83.6% |
| Others | 646 | 49.3% | 585 | 47.5% |
| Total | Rs.60,174 | 57.2% | Rs.71,005 | 60.6% |

After taking into account the impact of the exchange rate fluctuations of the Indian rupee against multiple currencies in the markets in which we operate, the gross profits from our Global Generics segment decreased to 62.7% during the nine months ended December 31, 2016 from 66.8% during the nine months ended December 31, 2015. This decrease was primarily on account of lower realizations due to increased competition in some of our key molecules and increased overhead costs. Consequently, there was a decrease in the proportion of sales of our higher gross margin products and an increase in the proportion of sales of our lower gross margin products.

The gross profits from our PSAI segment increased to 24.8% during the nine months ended December 31, 2016, from 22.5% during the nine months ended December 31, 2015. This increase was primarily on account of increased sales volumes, partially offset by a decrease in prices during the nine months ended December 31, 2016.

Selling, general and administrative expenses

Our selling, general and administrative expenses were Rs.35,399 million during the nine months ended December 31, 2016, an increase of 4% as compared to Rs.34,070 million during the nine months ended December 31, 2015. After taking into account the impact of exchange rate fluctuations of the Indian rupee against multiple currencies in the markets in which we operate, this increase was largely attributable to the following:

- increased sales and marketing expenses, primarily on account of the National Pharmaceutical Pricing Authority provision of Rs.360 million, related to the petition filed by the Indian Pharmaceutical Alliance

(refer to Note 22 of our unaudited condensed consolidated interim financial statements for further details), which increased our selling, general and administrative expenses by approximately 4%;

- increased legal and professional expenses, primarily on account of the remediation activities related to the warning letter received from the U.S. FDA for three of our manufacturing facilities in India, which increased our selling, general and administrative expenses by approximately 3%; partially offset by
- decreased other costs, which decreased our selling, general and administrative expenses by approximately 3%.

As a proportion of our total revenues, our selling, general and administrative expenses increased to 33.6% during the nine months ended December 31, 2016 from 29.1% during the nine months ended December 31, 2015.

Research and development expenses

Our research and development costs were Rs.14,972 million during the nine months ended December 31, 2016, an increase of 16% as compared to Rs.12,955 million during the nine months ended December 31, 2015. This increase was in accordance with our strategy to expand our research and development efforts in complex formulations, differentiated formulations and biosimilar compounds. In addition, our research and development expenses during the nine months ended December 31, 2016 includes costs incurred towards the assets in-licensed from Xenoport, Inc. and Eisai Co., Ltd.

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Other (income) / expense, net

Our other income was Rs.560 million during the nine months ended December 31, 2016, as compared to other income of Rs.567 million during the nine months ended December 31, 2015.

Finance (expense) / income, net

Our net finance income was Rs.854 million during the nine months ended December 31, 2016, as compared to net finance expense of Rs.62 million during the nine months ended December 31, 2015. The increase in net finance income was attributable to:

- net interest income of Rs.21 million during the nine months ended December 31, 2016, as compared to net interest income of Rs.305 million during the nine months ended December 31, 2015;
- net foreign exchange gain of Rs.63 million during the nine months ended December 31, 2016, as compared to net foreign exchange loss of Rs.772 million (which includes the impact of Venezuela currency exchange loss) during the nine months ended December 31, 2015; and
- profit on sale of investments of Rs.770 million during the nine months ended December 31, 2016, as compared to profit on sale of investments of Rs.406 million during the nine months ended December 31, 2015.

Profit before tax

As a result of the above, our profit before tax was Rs.11,464 million during the nine months ended December 31, 2016, a decrease of 54% as compared to Rs.24,655 million during the nine months ended December 31, 2015.

Tax expense

Our consolidated weighted average tax rate was 22.2% during the nine months ended December 31, 2016, as compared to 21.9% during the nine months ended December 31, 2015.

Our tax expense was Rs.2,550 million during the nine months ended December 31, 2016, as compared to Rs.5,388 million during the nine months ended December 31, 2015.

Profit for the period

As a result of the above, our net profit was Rs.8,914 million during the nine months ended December 31, 2016, representing 8.5% of our total revenues for such period, as compared to Rs.19,267 million during the nine months ended December 31, 2015, representing 16.4% of our total revenues for such period.

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

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

Our principal sources of short-term liquidity are internally generated funds and short-term borrowings, which we believe are sufficient to meet our working capital requirements. Through our subsidiary in Switzerland, we borrowed U.S.\$220 million during the year ended March 31, 2012, which was required to be repaid in eight quarterly installments beginning in December 2014. During the year ended March 31, 2016, we repaid the entire outstanding loan amount (including a prepayment of U.S.\$110 million), and our subsidiary in Switzerland further incurred U.S.\$82.5 million of new short-term borrowings, which was repaid by June 2016. Furthermore, we also borrowed U.S.\$150 million during the year ended March 31, 2014, which was to be repaid in five quarterly installments beginning February 2018. During the three months ended December 31, 2016, we entered into a financing arrangement with certain financial institutions to refinance this borrowing of U.S.\$150 million. As per the repayment schedule applicable to the refinanced borrowing, we repaid U.S.\$75 million on November 28, 2016 (refer to Note 13 to our interim financial statements for further details). These loans were borrowed primarily to repay some of our then existing short term borrowings and to meet anticipated capital expenditures over the near term.

During the three months ended September 30, 2016, our subsidiary in Switzerland borrowed an additional U.S.\$350 million of short-term borrowings from certain institutional lenders (refer to Note 13 to our interim financial statements for further details). These loans were borrowed for the purpose of acquisition of eight Abbreviated New Drug Applications (ANDAs) from Teva Pharmaceutical Industries Limited in the United States (refer to Note 32 of our interim financial statements for additional details).

As part of our growth strategy, we continue to review opportunities to acquire companies, complementary technologies or product rights.

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

| | For the nine months ended December 31, | | |
|---|--|-----------------|---------------|
| | 2016 | 2016 | 2015 |
| | (U.S.\$ in millions, Rs. in millions) | | |
| | <i>Convenience translation into U.S.\$</i> | | |
| Net cash from/(used in): | | | |
| Operating activities | U.S.\$192 | Rs.12,996 | Rs.31,991 |
| Investing activities | (225) | 15,231 | (15,266) |
| Financing activities | 55 | 3,704 | (15,838) |
| Net increase/(decrease) in cash and cash equivalents | U.S.\$22 | Rs.1,469 | Rs.887 |

In addition to cash, inventory and accounts receivable, our unused sources of liquidity included approximately Rs.18,052 million in available credit under revolving credit facilities with banks as of December 31, 2016. We had no other material unused sources of liquidity as of December 31, 2016.

Operating Activities

The net result of operating activities was a cash inflow of Rs.12,996 million for the nine months ended December 31, 2016, as compared to a cash inflow of Rs.31,991 million for the nine months ended December 31, 2015.

The net cash provided by operating activities decreased during the nine months ended December 31, 2016, primarily on account of decreased business performance due to increased competition for key products in our North America (the United States and Canada) generics business and a decrease in prices for certain of our products in this region, coupled with decreases in sales volumes and partially impacted by our voluntary reduction of our supply of products to Venezuela as a risk mitigation approach. This has resulted in a decrease of Rs.12,256 million in our earnings before interest expense, profit/loss on sale of investments, tax expense, depreciation and amortization (Adjusted EBITDA), to Rs.19,192 million for the nine months ended December 31, 2016, as compared to Rs.31,448 million for the nine months ended December 31, 2015.

Our average days sales outstanding (DSO) as at December 31, 2016, September 30, 2016 and December 31, 2015, based on the most recent quarter's sales, were 101 days, 95 days and 97 days, respectively.

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Investing Activities

Our investing activities resulted in a net cash outflow of Rs.15,231 million as compared to a net cash outflow of Rs.15,266 million for the nine months ended December 31, 2016 and 2015, respectively. This decrease in net cash outflow of Rs.35 million was primarily due to:

- Rs.23,366 million (U.S.\$350 million) paid to Teva Pharmaceutical Industries Limited for the acquisition of eight Abbreviated New Drug Applications (ANDAs) during the nine months ended December 31, 2016 (refer to Note 32 of our interim financial statements for further details);
- Rs.7,936 million paid to UCB for the acquisition of a select portfolio of established products business during the nine months ended December 31, 2015 (refer to Note 4 of our interim financial statements for further details);
- Rs.3,159 million (U.S.\$47.5 million) paid to Xenoport, Inc. for the acquisition of exclusive U.S. rights for the development and commercialization of a clinical stage oral new chemical entity which forms a part of our Proprietary Products segment, during the nine months ended December 31, 2016 (refer to Note 30 of our interim financial statements for further details);
- Rs.1,148 million (U.S.\$17 million) paid to Ducere Pharma LLC for the purchase of OTC brands which forms a part of our Global Generics segment, during the nine months ended December 31, 2016 (refer to Note 31 of our interim financial statements for further details);
- Rs.1,158 million (U.S.\$17.5 million) paid to Alchemia Limited for the purchase of worldwide, exclusive intellectual property rights to fondaparinux sodium during the nine months ended December 31, 2015 (refer to Note 27 of our interim financial statements for further details);
- Rs.947 million (U.S.\$14.25 million) paid to Hatchtech Pty Limited for the purchase of intellectual property rights to an innovative prescription head lice product, Xeglyze™ Lotion during the nine months ended December 31, 2015 (refer to Note 26 of our interim financial statements for further details);
- an increase by Rs.18,532 million during the nine months ended December 31, 2016, as compared to the nine months ended December 31, 2015, in the proceeds from redemption of investments in mutual funds and fixed deposits having an original maturity of more than three months; and
- a net increase in amounts spent on property, plant and equipment by Rs.597 million during the nine months ended December 31, 2016, as compared to the nine months ended December 31, 2015.

Financing Activities

Our financing activities resulted in a net cash inflow of Rs.3,704 million as compared to a net cash outflow of Rs.15,838 million for the nine months ended December 31, 2016 and 2015, respectively.

During the nine months ended December 31, 2016, we bought back and extinguished 5,077,504 equity shares for an aggregate purchase price of Rs.15,694 million (refer to note 16 of our interim financial statements for further details). In addition, we repaid long term borrowings of Rs.5,226 (U.S.\$75) million during the nine months ended December 31, 2016, which primarily consisted of the partial repayment of a U.S.\$150 million loan by our parent company (refer to Note 13 to our interim financial statements for further details). Furthermore, we incurred net short-term borrowings of Rs.28,537 million during the nine months ended December 31, 2016, including borrowings of Rs.23,366 (U.S.\$350) million by our Swiss subsidiary for the purpose of acquiring eight ANDAs from Teva Pharmaceutical Industries Limited (refer to note 32 of our interim financial statements for further details). Furthermore, we also paid dividends (including dividend distribution taxes) of Rs.3,390 million.

In comparison, during the nine months ended December 31, 2015, we repaid long term borrowings of Rs.11,647 million, which primarily consisted of the repayment of all long term borrowings by our Swiss Subsidiary and our U.K. subsidiary Dr. Reddy s Laboratories (EU) Limited. Further, we also incurred short-term borrowings of Rs.636 million and paid dividends (including dividend distribution taxes) of Rs.4,106 million during the nine months ended December 31, 2015.

Table of Contents***Principal Debt Obligations***

The following table provides a list of our principal debt obligations (excluding capital lease obligations) outstanding as of December 31, 2016:

| Debt | Principal Amount | | Currency | Interest Rate |
|--|--|-----------|-----------------|------------------------|
| | (U.S.\$ in millions, Rs. in millions) | | | |
| | <i>Convenience translation into U.S.\$</i> | | | |
| Packing credit borrowings (short term) | U.S.\$362 | Rs.24,604 | USD | LIBOR + (30) to 10 bps |
| | | | EURO | LIBOR + 5 to 7.5 bps |
| | | | RUB | 10.40% to 10.90% |
| | | | INR | 6.92% to 6.95% |
| Other short-term borrowings | 395 | 26,831 | INR | T-Bill + 30 bps |
| | | | 11 | 723 |
| Long-term borrowings | 75 | 5,094 | USD | LIBOR + 82.7 bps |

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Item 4. OTHER MATTERS

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

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

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

On November 3, 2014, Dr. Reddy's Laboratories, Inc. received a subpoena duces tecum to appear before the Office of the Attorney General, California (the California AG) and produce records and documents relating to the pricing of certain products. A set of five interrogatories related to pricing practices was served as well. On July 18, 2016, the California AG sent a letter to inform Dr. Reddy's Laboratories, Inc. that, in light of the information provided to that date, no further information would be requested at present in response to this subpoena.

Subpoenas from the Division of the U.S. Department of Justice (DOJ) and the office of the Attorney General for the State of Connecticut

On July 6, 2016 and August 7, 2016, one of our subsidiaries received subpoenas from the DOJ and the office of the Attorney General for the State of Connecticut, respectively, seeking information relating to the marketing, pricing and sale of certain of our generic products and any communications with competitors about such products. We intend to fully cooperate with these inquiries.

Agreement with Amgen

During the three months ended September 30, 2016, we entered into an agreement with Amgen Inc. (Amgen) that effectively expands the strategic collaboration we entered with Amgen in August 2015. Under the terms of the new agreement, we will commercialize the oncology and osteoporosis medicines XGEVA® (denosumab), Vectibix® (panitumumab) and Prolia® (denosumab) in India.

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ITEM 5. EXHIBITS

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

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SIGNATURES

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

DR. REDDY S LABORATORIES LIMITED
(Registrant)

Date: February 10, 2017

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