



Dr. Reddy's Laboratories Ltd.  
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November 9, 2017

Corporate Relationship Department  
BSE Limited  
Dalal Street, Fort  
Mumbai – 400 001  
Fax Nos.: 022-22723121 / 22723719 /  
22722037 / 22722039

National Stock Exchange of India Ltd.  
“Exchange Plaza”  
Bandra-Kurla Complex, Bandra (East),  
Mumbai – 400 051  
Fax Nos.: 022-26598120/ 26598237/  
26598238

**Scrip Code: 500124**

**Scrip Code: DRREDDY-EQ**

Dear Sirs,

**Sub: Form 6-K for the quarter ended September 30, 2017, filed with United States Securities and Exchange Commission**

This is to inform you that the Company has filed its unaudited condensed consolidated interim financial statements prepared under IFRS in Form 6-K for the quarter ended September 30, 2017, with the United States Securities and Exchange Commission on November 8, 2017. A copy of the Form 6-K is attached.

The Form 6-K is also available on Dr. Reddy's website, [www.drreddys.com](http://www.drreddys.com).

This is for your information.

With regards,

  
Sandeep Poddar  
Company Secretary

CC:- New York Stock Exchange Inc.(Stock Code: RDY)

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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 September 30, 2017

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

Form 40-F

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

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

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

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

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

Yes

No

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

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**QUARTERLY REPORT**  
**Quarter Ended September 30, 2017**

**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, references to “Rs.” or “rupees” or “Indian rupees” are to the legal currency of India, and references to “EUR” or “euros” are to the legal currency of the European Union. 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 “ADSs” 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. References to “EU” are to the European Union. All references to “we”, “us”, “our”, “DRL”, “Dr. Reddy’s” or the “Company” shall mean Dr. Reddy’s Laboratories Limited and its subsidiaries. “Dr. Reddy’s” is a registered trademark of Dr. Reddy’s Laboratories Limited in India. Other trademarks or trade names used in this Quarterly Report are trademarks registered in the name of Dr. Reddy’s Laboratories Limited or are pending before the respective trademark registries, 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.65.30, as published by Federal Reserve Board of Governors on September 29, 2017. 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](http://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 TITLED “OPERATING AND FINANCIAL REVIEW, TREND INFORMATION” AND ELSEWHERE IN THIS REPORT. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH REFLECT OUR ANALYSIS ONLY AS OF THE DATE HEREOF. IN ADDITION, READERS SHOULD CAREFULLY REVIEW THE INFORMATION IN OUR PERIODIC REPORTS AND OTHER DOCUMENTS FILED WITH AND/OR FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION (“SEC”) FROM TIME TO TIME.

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ITEM 1. FINANCIAL STATEMENTS

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

Particulars	Note	As of		
		September 30, 2017	September 30, 2017	March 31, 2017
		<i>Convenience translation into U.S.\$ (See Note 2(d))</i>		
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	4	U.S.\$ 38	Rs. 2,460	Rs. 3,866
Other investments	5	219	14,333	14,270
Trade and other receivables		646	42,203	38,065
Inventories	6	413	26,998	28,529
Derivative financial instruments	8	3	171	262
Current tax assets		57	3,728	3,413
Other current assets		201	13,115	11,970
<b>Total current assets</b>		<b>U.S.\$ 1,577</b>	<b>Rs. 103,008</b>	<b>Rs. 100,375</b>
<b>Non-current assets</b>				
Property, plant and equipment	9	U.S.\$ 887	Rs. 57,905	Rs. 57,160
Goodwill	10	59	3,883	3,752
Other intangible assets	11	701	45,751	44,925
Trade and other receivables		3	217	206
Investment in equity accounted investees		28	1,857	1,603
Other investments	5	46	2,974	5,237
Deferred tax assets		82	5,371	5,580
Other non-current assets		16	1,052	983
<b>Total non-current assets</b>		<b>U.S.\$ 1,823</b>	<b>Rs. 119,010</b>	<b>Rs. 119,446</b>
<b>Total assets</b>		<b>U.S.\$ 3,400</b>	<b>Rs. 222,018</b>	<b>Rs. 219,821</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Current liabilities</b>				
Trade and other payables		U.S.\$ 217	Rs. 14,193	Rs. 13,417
Short-term borrowings	12	438	28,579	43,539
Long-term borrowings, current portion	12	1	76	110
Provisions		59	3,821	4,509
Current tax liabilities		26	1,708	1,483
Derivative financial instruments	8	2	157	10
Bank overdraft	4	1	60	87
Other current liabilities		333	21,745	21,845
<b>Total current liabilities</b>		<b>U.S.\$ 1,077</b>	<b>Rs. 70,339</b>	<b>Rs. 85,000</b>
<b>Non-current liabilities</b>				
Long-term borrowings, excluding current portion	12	U.S.\$ 382	Rs. 24,952	Rs. 5,449
Deferred tax liabilities		13	817	1,204
Provisions		1	50	47
Other non-current liabilities		62	4,020	4,077
<b>Total non-current liabilities</b>		<b>U.S.\$ 457</b>	<b>Rs. 29,839</b>	<b>Rs. 10,777</b>
<b>Total liabilities</b>		<b>U.S.\$ 1,534</b>	<b>Rs. 100,178</b>	<b>Rs. 95,777</b>

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

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

Particulars	Note	As of		
		September 30, 2017	September 30, 2017	March 31, 2017
		<i>Convenience translation into U.S.\$ (See Note 2(d))</i>		
<b>Equity</b>				
Share capital	15	U.S.\$ 13	Rs. 829	Rs. 829
Share premium		118	7,708	7,359
Share based payment reserve		13	863	998
Capital redemption reserve		3	173	173
Retained earnings		1,646	107,499	108,051
Other components of equity		73	4,768	6,634
<b>Total equity</b>		<b>U.S.\$ 1,866</b>	<b>Rs. 121,840</b>	<b>Rs. 124,044</b>
<b>Total liabilities and equity</b>		<b>U.S.\$ 3,400</b>	<b>Rs. 222,018</b>	<b>Rs. 219,821</b>

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

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

Particulars	Note	For the six months ended September 30,			For the three months ended September 30,		
		2017	2017	2016	2017	2016	2016
		<i>Convenience translation into U.S.\$ (See Note 2(d))</i>					
<b>Revenues<sup>(1)</sup></b>		<b>U.S.\$ 1,051</b>	<b>Rs. 68,619</b>	<b>Rs. 68,202</b>	<b>Rs. 35,460</b>	<b>Rs. 35,857</b>	<b>Rs. 35,857</b>
Cost of revenues		500	32,621	29,927	16,559	15,760	15,760
<b>Gross profit</b>		<b>551</b>	<b>35,998</b>	<b>38,275</b>	<b>18,901</b>	<b>20,097</b>	<b>20,097</b>
Selling, general and administrative expenses		349	22,795	24,058	11,032	11,774	11,774
Research and development expenses		142	9,250	10,016	4,175	5,214	5,214
Other (income)/expense, net	13	(5)	(308)	(373)	(114)	(277)	(277)
<b>Total operating expenses</b>		<b>486</b>	<b>31,737</b>	<b>33,701</b>	<b>15,093</b>	<b>16,711</b>	<b>16,711</b>
<b>Results from operating activities</b>		<b>65</b>	<b>4,261</b>	<b>4,574</b>	<b>3,808</b>	<b>3,386</b>	<b>3,386</b>
Finance income		10	635	1,084	199	491	491
Finance expense		(7)	(438)	(274)	(223)	(126)	(126)
<b>Finance (expense)/income, net</b>	14	<b>3</b>	<b>197</b>	<b>810</b>	<b>(24)</b>	<b>365</b>	<b>365</b>
Share of profit of equity accounted investees, net of tax		3	190	158	92	84	84
<b>Profit before tax</b>		<b>71</b>	<b>4,648</b>	<b>5,542</b>	<b>3,876</b>	<b>3,835</b>	<b>3,835</b>
Tax expense	18	18	1,208	1,329	1,027	885	885
<b>Profit for the period</b>		<b>53</b>	<b>3,440</b>	<b>4,213</b>	<b>2,849</b>	<b>2,950</b>	<b>2,950</b>
<b>Attributable to:</b>							
Equity holders of the Company		53	3,440	4,213	2,849	2,950	2,950
Non-controlling interest		-	-	-	-	-	-
<b>Profit for the period</b>		<b>U.S.\$ 53</b>	<b>Rs. 3,440</b>	<b>Rs. 4,213</b>	<b>Rs. 2,849</b>	<b>Rs. 2,950</b>	<b>Rs. 2,950</b>
<b>Earnings per share:</b>							
Basic earnings per share of Rs.5/- each		U.S.\$ 0.32	Rs. 20.75	Rs. 25.14	Rs. 17.18	Rs. 17.80	Rs. 17.80
Diluted earnings per share of Rs.5/- each		U.S.\$ 0.32	Rs. 20.71	Rs. 25.08	Rs. 17.15	Rs. 17.76	Rs. 17.76

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

- (1) Effective July 1, 2017, Goods and Services Tax ("GST") was introduced in India. Following the principles of IAS 18, revenue from operations is disclosed net of GST. For periods prior to July 1, 2017, the excise duty amount was recorded as part of revenues with a corresponding amount recorded in the cost of revenues. Accordingly, revenues and cost of revenues for the three months and six months ended September 30, 2017 are not comparable with those of the previous periods presented.

Tabulated below are the details of excise duty included in revenues:

	For the six months ended September 30,			For the three months ended September 30,		
	2017	2016	2016	2017	2016	2016
Excise duty included in revenues	Rs. 173	Rs. 474	Rs. 474	Rs. -	Rs. 251	Rs. 251

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

Particulars	For the six months ended September 30,			For the three months ended September 30,	
	2017	2017	2016	2017	2016
	<i>Convenience translation into U.S.\$ (See Note 2(d))</i>				
<b>Profit for the period</b>	<b>U.S.\$ 53</b>	<b>Rs. 3,440</b>	<b>Rs. 4,213</b>	<b>Rs. 2,849</b>	<b>Rs. 2,950</b>
<b>Other comprehensive income/(loss)</b>					
<i>Items that will not be reclassified to the consolidated income statement:</i>	-	-	-	-	-
<i>Items that may be reclassified subsequently to the consolidated income statement:</i>					
Changes in fair value of available for sale financial instruments	U.S.\$ (34)	Rs. (2,240)	Rs. 1,768	Rs. (564)	Rs. 1,703
Foreign currency translation adjustments	(2)	(118)	(510)	(11)	(241)
Effective portion of changes in fair value of cash flow hedges, net	(0)	(30)	869	(140)	512
Tax on items that may be reclassified subsequently to the consolidated income statement	8	522	(476)	172	(461)
<b>Total of items that may be reclassified subsequently to the consolidated income statement</b>	<b>U.S.\$ (29)</b>	<b>Rs. (1,866)</b>	<b>Rs. 1,651</b>	<b>Rs. (543)</b>	<b>Rs. 1,513</b>
<b>Other comprehensive income/(loss) for the period, net of tax</b>	<b>U.S.\$ (29)</b>	<b>Rs. (1,866)</b>	<b>Rs. 1,651</b>	<b>Rs. (543)</b>	<b>Rs. 1,513</b>
<b>Total comprehensive income for the period</b>	<b>U.S.\$ 24</b>	<b>Rs. 1,574</b>	<b>Rs. 5,864</b>	<b>Rs. 2,306</b>	<b>Rs. 4,463</b>
<b>Attributable to:</b>					
Equityholders of the Company	24	1,574	5,864	2,306	4,463
Non-controlling interest	-	-	-	-	-
<b>Total comprehensive income for the period</b>	<b>U.S.\$ 24</b>	<b>Rs. 1,574</b>	<b>Rs. 5,864</b>	<b>Rs. 2,306</b>	<b>Rs. 4,463</b>

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



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

Particulars	Share capital	Share premium	Share based payment reserve	Fair value reserve	Foreign currency translation reserve	Hedging reserve	Capital redemption reserve	Actuarial gains/(losses)	Retained earnings	Total
<b>Balance as of April 1, 2017 (A)</b>	Rs. 829	Rs. 7,359	Rs. 998	Rs. 2,744	Rs. 4,233	Rs. 86	Rs. 173	Rs. (429)	Rs. 108,051	Rs. 124,044
<b>Total comprehensive income</b>										
Profit for the period	Rs. -	Rs. -	Rs. -	Rs. -	Rs. -	Rs. -	Rs. -	Rs. -	Rs. 3,440	Rs. 3,440
Net change in fair value of available for sale financial instruments, net of tax benefit of Rs.534	-	-	-	(1,706)	-	-	-	-	-	(1,706)
Foreign currency translation adjustments, net of tax expense of Rs.23	-	-	-	-	(141)	-	-	-	-	(141)
Effective portion of changes in fair value of cash flow hedges, net of tax benefit of Rs.11	-	-	-	-	-	(19)	-	-	-	(19)
<b>Total comprehensive income (B)</b>	<b>Rs. -</b>	<b>Rs. -</b>	<b>Rs. -</b>	<b>Rs. (1,706)</b>	<b>Rs. (141)</b>	<b>Rs. (19)</b>	<b>Rs. -</b>	<b>Rs. -</b>	<b>Rs. 3,440</b>	<b>Rs. 1,574</b>
<b>Transactions with owners of the Company</b>										
<i>Contributions and distributions</i>										
Issue of equity shares on exercise of options	Rs. 0	Rs. 349	Rs. (349)	Rs. -	Rs. -	Rs. -	Rs. -	Rs. -	Rs. -	Rs. 0
Share based payment expense	-	-	214	-	-	-	-	-	-	214
Dividend paid (including corporate dividend tax)	-	-	-	-	-	-	-	-	(3,992)	(3,992)
<b>Total contributions and distributions</b>	<b>Rs. 0</b>	<b>Rs. 349</b>	<b>Rs. (135)</b>	<b>Rs. -</b>	<b>Rs. -</b>	<b>Rs. -</b>	<b>Rs. -</b>	<b>Rs. -</b>	<b>Rs. (3,992)</b>	<b>Rs. (3,778)</b>
<i>Changes in ownership interests</i>										
<b>Total transactions with owners of the Company (C)</b>	<b>Rs. 0</b>	<b>Rs. 349</b>	<b>Rs. (135)</b>	<b>Rs. -</b>	<b>Rs. -</b>	<b>Rs. -</b>	<b>Rs. -</b>	<b>Rs. -</b>	<b>Rs. (3,992)</b>	<b>Rs. (3,778)</b>
<b>Balance as of September 30, 2017 [(A)+(B)+(C)]</b>	<b>Rs. 829</b>	<b>Rs. 7,708</b>	<b>Rs. 863</b>	<b>Rs. 1,038</b>	<b>Rs. 4,092</b>	<b>Rs. 67</b>	<b>Rs. 173</b>	<b>Rs. (429)</b>	<b>Rs. 107,499</b>	<b>Rs. 121,840</b>
Convenience translation into U.S.\$ (See note 2(d))	U.S.\$ 13	U.S.\$ 118	U.S.\$ 13	U.S.\$ 16	U.S.\$ 63	U.S.\$ 1	U.S.\$ 3	U.S.\$ (7)	U.S.\$ 1,646	U.S.\$ 1,866
<b>Balance as of April 1, 2016 (D)</b>	<b>Rs. 853</b>	<b>Rs. 22,601</b>	<b>Rs. 1,100</b>	<b>Rs. 1,034</b>	<b>Rs. 4,424</b>	<b>Rs. (822)</b>	<b>Rs. 148</b>	<b>Rs. (404)</b>	<b>Rs. 99,402</b>	<b>Rs. 128,336</b>
<b>Total comprehensive income</b>										
Profit for the period	Rs. -	Rs. -	Rs. -	Rs. -	Rs. -	Rs. -	Rs. -	Rs. -	Rs. 4,213	Rs. 4,213
Net change in fair value of available for sale financial instruments, net of tax expense of Rs.416	-	-	-	1,352	-	-	-	-	-	1,352
Foreign currency translation adjustments, net of tax expense of Rs.28	-	-	-	-	(538)	-	-	-	-	(538)
Effective portion of changes in fair value of cash flow hedges, net of tax expense of Rs.32	-	-	-	-	-	837	-	-	-	837
<b>Total comprehensive income (E)</b>	<b>Rs. -</b>	<b>Rs. -</b>	<b>Rs. -</b>	<b>Rs. 1,352</b>	<b>Rs. (538)</b>	<b>Rs. 837</b>	<b>Rs. -</b>	<b>Rs. -</b>	<b>Rs. 4,213</b>	<b>Rs. 5,864</b>
<b>Transactions with owners of the Company</b>										
<i>Contributions and distributions</i>										
Issue of equity shares on exercise of options	Rs. 1	Rs. 388	Rs. (388)	Rs. -	Rs. -	Rs. -	Rs. -	Rs. -	Rs. -	Rs. 1
Buyback of equity shares <sup>(1)</sup>	(25)	(15,669)	-	-	-	-	-	-	-	(15,694)
Share based payment expense	-	-	147	-	-	-	-	-	-	147
Dividend paid (including corporate dividend tax)	-	-	-	-	-	-	-	-	(3,390)	(3,390)
Transfer to capital redemption reserve	-	(25)	-	-	-	-	25	-	-	-
<b>Total contributions and distributions</b>	<b>Rs. (24)</b>	<b>Rs. (15,306)</b>	<b>Rs. (241)</b>	<b>Rs. -</b>	<b>Rs. -</b>	<b>Rs. -</b>	<b>Rs. 25</b>	<b>Rs. -</b>	<b>Rs. (3,390)</b>	<b>Rs. (18,936)</b>
<i>Changes in ownership interests</i>										
<b>Total transactions with owners of the Company (F)</b>	<b>Rs. (24)</b>	<b>Rs. (15,306)</b>	<b>Rs. (241)</b>	<b>Rs. -</b>	<b>Rs. -</b>	<b>Rs. -</b>	<b>Rs. 25</b>	<b>Rs. -</b>	<b>Rs. (3,390)</b>	<b>Rs. (18,936)</b>
<b>Balance as of September 30, 2016 [(D)+(E)+(F)]</b>	<b>Rs. 829</b>	<b>Rs. 7,295</b>	<b>Rs. 859</b>	<b>Rs. 2,386</b>	<b>Rs. 3,886</b>	<b>Rs. 15</b>	<b>Rs. 173</b>	<b>Rs. (404)</b>	<b>Rs. 100,225</b>	<b>Rs. 115,264</b>

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

(1) Refer to Note 15 of these unaudited condensed consolidated interim financial statements.

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

	Note	For the six months ended September 30,		
		2017	2017	2016
				<i>Convenience translation into U.S.\$ (See Note 2(d))</i>
<b>Particulars</b>				
<b>Cash flows from/(used in) operating activities:</b>				
Profit for the period		U.S.\$ 53	Rs. 3,440	Rs. 4,213
<i>Adjustments for:</i>				
Income tax expense		18	1,208	1,329
Dividend and profit on sale of investments	14	(6)	(371)	(663)
Depreciation and amortization	20	88	5,740	5,528
Impairment on other intangible assets		-	-	67
Inventory write-downs	6	24	1,586	1,481
Allowance for doubtful trade and other receivables		(0)	(11)	73
(Gain)/loss on sale of property, plant and equipment and other intangible assets, net	13	(0)	(2)	6
Allowance for sales returns		21	1,367	1,173
Share of profit of equity accounted investees		(3)	(190)	(158)
Exchange (gain)/loss, net		(23)	(1,471)	226
Interest (income)/expense, net	14	4	231	(74)
Share based payment expense	16	3	221	159
<i>Changes in operating assets and liabilities:</i>				
Trade and other receivables		(53)	(3,490)	4,852
Inventories		2	154	(4,561)
Trade and other payables		5	326	546
Other assets and other liabilities		(45)	(2,920)	(3,587)
<b>Cash flows from/(used in) operating activities</b>		<b>U.S.\$ 89</b>	<b>Rs. 5,818</b>	<b>Rs. 10,610</b>
Income tax paid		(17)	(1,090)	(2,847)
<b>Net cash from/(used in) operating activities</b>		<b>U.S.\$ 72</b>	<b>Rs. 4,728</b>	<b>Rs. 7,763</b>
<b>Cash flows from/(used in) investing activities:</b>				
Purchase of property, plant and equipment		U.S.\$ (85)	Rs. (5,570)	Rs. (6,355)
Proceeds from sale of property, plant and equipment		1	50	27
Purchase of other intangible assets		(7)	(486)	(28,179)
Investment in equity accounted investees		-	-	(86)
Purchase of other investments		(377)	(24,619)	(27,989)
Proceeds from sale of other investments		382	24,955	44,838
Interest and dividend received		3	214	452
<b>Net cash from/(used in) investing activities</b>		<b>U.S.\$ (84)</b>	<b>Rs. (5,456)</b>	<b>Rs. (17,292)</b>
<b>Cash flows from/(used in) financing activities:</b>				
Proceeds from issuance of equity shares		U.S.\$ 0	Rs. 0	Rs. 1
Buyback of equity shares		-	-	(15,694)
Proceeds from/(repayment of) short-term borrowings, net		(229)	(14,961)	26,677
Proceeds from/(repayment of) long-term borrowings, net		291	18,991	(55)
Dividend paid (including corporate dividend tax)		(61)	(3,992)	(3,390)
Interest paid		(10)	(684)	(315)
<b>Net cash from/(used in) financing activities</b>		<b>U.S.\$ (10)</b>	<b>Rs. (646)</b>	<b>Rs. 7,224</b>
Net increase/(decrease) in cash and cash equivalents		(21)	(1,374)	(2,305)
Effect of exchange rate changes on cash and cash equivalents		(0)	(5)	(310)
Cash and cash equivalents at the beginning of the period	4	58	3,779	4,921
<b>Cash and cash equivalents at the end of the period</b>	<b>4</b>	<b>U.S.\$ 37</b>	<b>Rs. 2,400</b>	<b>Rs. 2,306</b>

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

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

**1. Reporting entity**

Dr. Reddy's Laboratories Limited (the "parent company"), together with its subsidiaries and joint ventures (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 and differentiated formulations. The Company's principal research and development facilities are located in the states of Telangana and Andhra Pradesh in India, Cambridge in the United Kingdom and Leiden in the Netherlands; its principal manufacturing facilities are located in the states of Telangana, Andhra Pradesh and Himachal Pradesh in India, Cuernavaca-Cuautla in Mexico, Mirfield in the United Kingdom, and Louisiana and Tennessee in the United States; and its principal markets are in India, Russia, the United States, the United Kingdom, and Germany. The Company's shares trade on the Bombay Stock Exchange and the National Stock Exchange in India and also on the New York Stock Exchange in the United States.

**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, 2017. These interim financial statements were authorized for issuance by the Company's Board of Directors on November 8, 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, 2017 contained in the Company's Annual Report on Form 20-F.

**c) Basis of measurement**

These interim financial statements have been prepared on the historical cost convention and on an accrual basis, except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value;
- available for sale financial assets are measured at fair value;
- employee defined benefit assets/(liability) are recognized as the net total of the fair value of plan assets adjusted for actuarial losses and gains and the present value of the defined benefit obligation;
- long term borrowings, except obligations under finance leases, are measured at amortized cost using the effective interest rate method; and
- investments in joint ventures are accounted for using the equity method.

**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 six months ended September 30, 2017 have been translated into U.S. dollars at the certified foreign exchange rate of U.S.\$1.00 = Rs.65.30, as published by the Federal Reserve Board of Governors on September 29, 2017. 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.

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

**2. Basis of preparation of financial statements (continued)**

**e) 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.

**f) 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, 2017.

**g) 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 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". This comprehensive new standard will supersede existing revenue recognition guidance, and requires an entity to 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 intends to adopt IFRS 15 effective April 1, 2018, using the modified retrospective approach.

The adoption of IFRS 15 is not expected to have a significant impact on the Company's recognition of revenues from product sales and service income. However, the Company continues to assess the impact of IFRS 15 on other revenue and income streams including, but not limited to, revenue from collaborative arrangements, license fee and milestone revenues.

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

**2. Basis of preparation of financial statements (continued)**

**g) Recent accounting pronouncements (continued)**

*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.

*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.

*IFRIC 23, Uncertainty over Income Tax treatments*

On June 7, 2017, the IFRS Interpretations Committee issued IFRIC 23, which clarifies how the recognition and measurement requirements of IAS 12 "Income taxes", are applied where there is uncertainty over income tax treatments.

IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the applicable tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under applicable tax law. The interpretation provides specific guidance in several areas where previously IAS 12 was silent. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

The interpretation is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. An entity can, on initial application, elect to apply this interpretation either:

- retrospectively applying IAS 8, if possible without the use of hindsight; or
- retrospectively, with the cumulative effect of initially applying the interpretation recognized at the date of initial application as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate).

The Company is in the process of evaluating the impact of IFRIC 23 on the consolidated financial statements and the period of adoption.

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

**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 Chief Executive Officer is the CODM of the Company.

The Company's reportable operating segments are as follows:

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

**Global Generics.** This segment consists of the Company's business of manufacturing and marketing prescription and over-the-counter finished pharmaceutical products ready for consumption by the patient, marketed 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. These 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 and expenses is consistent with the accounting policies that are used in preparation of the Company's consolidated financial statements.

**Information about segments:**

Segments	For the six months ended September 30, 2017				
	Global Generics	PSAI	Proprietary Products	Others	Total
<b>Revenues</b> <sup>(1)</sup>	<b>Rs. 56,073</b>	<b>Rs. 10,305</b>	<b>Rs. 1,260</b>	<b>Rs. 981</b>	<b>Rs. 68,619</b>
<b>Gross profit</b>	<b>Rs. 32,772</b>	<b>Rs. 1,640</b>	<b>Rs. 1,051</b>	<b>Rs. 535</b>	<b>Rs. 35,998</b>
Selling, general and administrative expenses					22,795
Research and development expenses					9,250
Other (income)/expense, net					(308)
<b>Results from operating activities</b>					<b>Rs. 4,261</b>
Finance (expense)/income, net					197
Share of profit of equity accounted investees, net of tax					190
<b>Profit before tax</b>					<b>Rs. 4,648</b>
Tax expense					1,208
<b>Profit for the period</b>					<b>Rs. 3,440</b>

<sup>(1)</sup>Revenues for the six months ended September 30, 2017 do not include inter-segment revenues from the PSAI segment to the Global Generics segment, which are accounted for at a cost of Rs.2,695.

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

**3. Segment reporting (continued)**

**Information about segments:**

Segments	For the six months ended September 30, 2016					Total
	Global Generics	PSAI	Proprietary Products	Others		
<b>Revenues</b> <sup>(1)</sup>	Rs. 55,633	Rs. 10,477	Rs. 1,208	Rs. 884	Rs.	<b>68,202</b>
<b>Gross profit</b>	Rs. 34,406	Rs. 2,402	Rs. 1,032	Rs. 435	Rs.	<b>38,275</b>
Selling, general and administrative expenses						24,058
Research and development expenses						10,016
Other (income)/expense, net						(373)
<b>Results from operating activities</b>					Rs.	<b>4,574</b>
Finance (expense)/income, net						810
Share of profit of equity accounted investees, net of tax						158
<b>Profit before tax</b>					Rs.	<b>5,542</b>
Tax expense						1,329
<b>Profit for the period</b>					Rs.	<b>4,213</b>

(1) Revenues for the six months ended September 30, 2016 do not include inter-segment revenues from the PSAI segment to the Global Generics segment, which are accounted for at a cost of Rs.3,216.

**Information about segments:**

Segments	For the three months ended September 30, 2017					Total
	Global Generics	PSAI	Proprietary Products	Others		
<b>Revenues</b> <sup>(1)</sup>	Rs. 28,618	Rs. 5,654	Rs. 748	Rs. 440	Rs.	<b>35,460</b>
<b>Gross profit</b>	Rs. 16,936	Rs. 1,107	Rs. 633	Rs. 225	Rs.	<b>18,901</b>
Selling, general and administrative expenses						11,032
Research and development expenses						4,175
Other (income)/expense, net						(114)
<b>Results from operating activities</b>					Rs.	<b>3,808</b>
Finance (expense)/income, net						(24)
Share of profit of equity accounted investees, net of tax						92
<b>Profit before tax</b>					Rs.	<b>3,876</b>
Tax expense						1,027
<b>Profit for the period</b>					Rs.	<b>2,849</b>

(1) Revenues for the three months ended September 30, 2017 do not include inter-segment revenues from the PSAI segment to the Global Generics segment, which are accounted for at a cost of Rs.1,456.

**Information about segments:**

Segments	For the three months ended September 30, 2016					Total
	Global Generics	PSAI	Proprietary Products	Others		
<b>Revenues</b> <sup>(1)</sup>	Rs. 28,995	Rs. 5,784	Rs. 588	Rs. 490	Rs.	<b>35,857</b>
<b>Gross profit</b>	Rs. 18,067	Rs. 1,271	Rs. 507	Rs. 252	Rs.	<b>20,097</b>
Selling, general and administrative expenses						11,774
Research and development expenses						5,214
Other (income)/expense, net						(277)
<b>Results from operating activities</b>					Rs.	<b>3,386</b>
Finance (expense)/income, net						365
Share of profit of equity accounted investees, net of tax						84
<b>Profit before tax</b>					Rs.	<b>3,835</b>
Tax expense						885
<b>Profit for the period</b>					Rs.	<b>2,950</b>

(1) Revenues for the three months ended September 30, 2016 do not include inter-segment revenues from the PSAI segment to the Global Generics segment, which are accounted for at a cost of Rs.1,654.

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

**3. Segment reporting (continued)**

**Analysis of revenues 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 six months ended September 30,		For the three months ended September 30,	
	2017	2016	2017	2016
India	Rs. 12,881	Rs. 12,443	Rs. 6,806	Rs. 6,844
United States	32,492	34,698	16,191	17,876
Russia	6,679	5,025	3,218	2,689
Others	16,567	16,036	9,245	8,448
	<b>Rs. 68,619</b>	<b>Rs. 68,202</b>	<b>Rs. 35,460</b>	<b>Rs. 35,857</b>

**4. Cash and cash equivalents**

Cash and cash equivalents consist of the following:

	As of	
	September 30, 2017	March 31, 2017
Cash balances	Rs. 2	Rs. 3
Balances with banks	1,635	1,131
Term deposits with banks (original maturities up to 3 months)	823	2,732
<b>Cash and cash equivalents in the statement of financial position</b>	<b>2,460</b>	<b>3,866</b>
Bank overdrafts used for cash management purposes	60	87
<b>Cash and cash equivalents in the statement of cash flow</b>	<b>Rs. 2,400</b>	<b>Rs. 3,779</b>

Cash and cash equivalents included restricted cash of Rs.787 and Rs.177, respectively, as of September 30, 2017 and March 31, 2017, which consisted of:

- Rs.76 as of September 30, 2017 and Rs.64 as of March 31, 2017, representing amounts in the Company's unclaimed dividend and debenture interest accounts;
- Rs.676 as of September 30, 2017 and Rs.0 as of March 31, 2017, representing a bank guarantee furnished to the Registrar General, Delhi High Court pursuant to an order by the Delhi High Court in relation to the Cardiovascular and Anti-diabetic formulations litigation (refer to Note 21 of these interim financial statements for further details);
- Rs.5 as of September 30, 2017 and Rs.38 as of March 31, 2017, representing cash and cash equivalents of the Company's subsidiary in Venezuela, which are subject to foreign exchange controls (refer to Note 26 of these interim financial statements for further details);
- Rs.0 as of September 30, 2017 and Rs.49 as of March 31, 2017, representing the portion of the purchase consideration deposited in an escrow account, pursuant to an acquisition of an intangible asset; and
- Rs.30 as of September 30, 2017 and Rs.26 as of March 31, 2017, representing other restricted cash amounts.



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

**5. 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 September 30, 2017 were as follows:

	<b>Cost</b>	<b>Gain/(loss) recognized directly in equity</b>	<b>Fair value</b>
Investment in units of mutual funds	Rs. 12,140	Rs. 1,496	Rs. 13,636
Investment in equity securities <sup>(1)</sup>	2,703	(13)	2,690
Term deposits with banks	981	-	981
	<b>Rs. 15,824</b>	<b>Rs. 1,483</b>	<b>Rs. 17,307</b>
<b>Current portion</b>			
Investment in units of mutual funds	Rs. 11,927	Rs. 1,438	Rs. 13,365
Term deposits with banks	968	-	968
	<b>Rs. 12,895</b>	<b>Rs. 1,438</b>	<b>Rs. 14,333</b>
<b>Non-current portion</b>			
Investment in units of mutual funds	Rs. 213	Rs. 58	Rs. 271
Investment in equity securities <sup>(1)</sup>	2,703	(13)	2,690
Term deposits with banks	13	-	13
	<b>Rs. 2,929</b>	<b>Rs. 45</b>	<b>Rs. 2,974</b>

<sup>(1)</sup> Primarily represents the shares of Curis, Inc. Refer to Note 22 of these interim financial statements for further details.

As of March 31, 2017, the details of such investments were as follows:

	<b>Cost</b>	<b>Gain/(loss) recognized directly in equity</b>	<b>Fair value</b>
Investment in units of mutual funds	Rs. 9,677	Rs. 1,464	Rs. 11,141
Investment in equity securities <sup>(1)</sup>	2,703	2,260	4,963
Term deposits with banks	3,403	-	3,403
	<b>Rs. 15,783</b>	<b>Rs. 3,724</b>	<b>Rs. 19,507</b>
<b>Current portion</b>			
Investment in units of mutual funds	Rs. 9,464	Rs. 1,417	Rs. 10,881
Term deposits with banks	3,389	-	3,389
	<b>Rs. 12,853</b>	<b>Rs. 1,417</b>	<b>Rs. 14,270</b>
<b>Non-current portion</b>			
Investment in units of mutual funds	Rs. 213	Rs. 47	Rs. 260
Investment in equity securities <sup>(1)</sup>	2,703	2,260	4,963
Term deposits with banks	14	-	14
	<b>Rs. 2,930</b>	<b>Rs. 2,307</b>	<b>Rs. 5,237</b>

<sup>(1)</sup> Primarily represents the shares of Curis, Inc. Refer to Note 22 of these interim financial statements for further details.

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

**6. Inventories**

Inventories consist of the following:

	As of	
	September 30, 2017	March 31, 2017
Raw materials	Rs. 6,845	Rs. 7,226
Packing materials, stores and spares	2,393	2,315
Work-in-progress	6,866	6,614
Finished goods	10,894	12,374
	<b>Rs. 26,998</b>	<b>Rs. 28,529</b>

*Details of inventories recognized in consolidated income statement*

	For the six months ended September 30,		For the three months ended September 30,	
	2017	2016	2017	2016
Raw materials, consumables and changes in finished goods and work in progress	Rs. 14,889	Rs. 12,629	Rs. 7,859	Rs. 6,691
Inventory write-downs	1,586	1,481	868	818

**7. Hedges of foreign currency exchange rate 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, Romanian new leus and Euros, and foreign currency debt in U.S. dollars, Russian roubles, Ukrainian hryvnias 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 loss of Rs.189 and Rs.107 for the three months and six months ended September 30, 2017, respectively (as compared to a net gain of Rs.93 and a net loss of Rs.4 for the three months and six months ended September 30, 2016, respectively).

*Hedges of highly probable forecast transactions*

- The Company classifies its derivative contracts that hedge foreign exchange risk associated with its highly probable forecast 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 to the consolidated income statement as revenue in the period corresponding to the occurrence of the forecast transactions. The ineffective portion of such cash flow hedges is immediately recorded in the consolidated 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 forecast 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 to the consolidated income statement as revenue in the period corresponding to the occurrence of the forecast 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.140 and Rs.30 for the three months and six months ended September 30, 2017, respectively (as compared to a net gain of Rs.512 and Rs.869 for the three months and six months ended September 30, 2016, respectively).

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**7. Hedges of foreign currency exchange rate risks (continued)**

*Hedges of highly probable forecast transactions (continued)*

- The Company also recorded, as a component of revenue, a net gain of Rs.188 and Rs.321 for the three months and six months ended September 30, 2017, respectively (as compared to a net loss of Rs.345 and Rs.792 for the three months and six months ended September 30, 2016, respectively).
- The net carrying amount of the Company's "hedging reserve" as a component of equity before adjusting for tax impact was a gain of Rs.99 as at September 30, 2017, as compared to a gain of Rs.129 as at March 31, 2017.

*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 consolidated income statement. The changes in fair value of such forward contracts and option contracts, as well as the foreign exchange gains and losses relating to the monetary items, are recognized in the consolidated income statement as part of "finance (expense)/income, net".

*Hedges of changes in the interest rates*

Consistent with the Company's risk management policy, interest rate swaps are used to mitigate the risk of changes in interest rates. These instruments are not used for trading or speculative purposes.

**8. Financial instruments**

*Non-derivative financial instruments*

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

*Derivative financial instruments*

The Company uses 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.

*Financial instruments by category*

The carrying value and fair value of financial instruments by each category as at September 30, 2017 were as follows:

	Note	Loans and receivables	Available for sale	Other financial liabilities	Derivative financial instruments	Total carrying value	Total fair value
<b>Assets:</b>							
Cash and cash equivalents	4	Rs. 2,460	Rs. -	Rs. -	Rs. -	Rs. 2,460	Rs. 2,460
Other investments	5	981	16,326	-	-	17,307	17,307
Trade and other receivables		42,420	-	-	-	42,420	42,420
Derivative financial instruments		-	-	-	171	171	171
Other assets <sup>(1)</sup>		1,668	-	-	-	1,668	1,668
<b>Total</b>		<b>Rs. 47,529</b>	<b>Rs. 16,326</b>	<b>Rs. -</b>	<b>Rs. 171</b>	<b>Rs. 64,026</b>	<b>Rs. 64,026</b>
<b>Liabilities:</b>							
Trade and other payables		Rs. -	Rs. -	Rs. 14,193	Rs. -	Rs. 14,193	Rs. 14,193
Derivative financial instruments		-	-	-	157	157	157
Long-term borrowings	12	-	-	25,161	-	25,161	25,161
Short-term borrowings	12	-	-	28,579	-	28,579	28,579
Bank overdraft	4	-	-	60	-	60	60
Other liabilities and provisions <sup>(2)</sup>		-	-	20,424	-	20,424	20,424
<b>Total</b>		<b>Rs. -</b>	<b>Rs. -</b>	<b>Rs. 88,417</b>	<b>Rs. 157</b>	<b>Rs. 88,574</b>	<b>Rs. 88,574</b>

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**8. Financial instruments (continued)**

The carrying value and fair value of financial instruments by each category as at March 31, 2017 were as follows:

	Note	Loans and receivables	Available for sale	Other financial liabilities	Derivative financial instruments	Total carrying value	Total fair value
<b>Assets:</b>							
Cash and cash equivalents	4	Rs. 3,866	Rs. -	Rs. -	Rs. -	Rs. 3,866	Rs. 3,866
Other investments	5	3,403	16,104	-	-	19,507	19,507
Trade and other receivables		38,271	-	-	-	38,271	38,271
Derivative financial instruments		-	-	-	262	262	262
Other assets <sup>(1)</sup>		1,916	-	-	-	1,916	1,916
<b>Total</b>		<b>Rs. 47,456</b>	<b>Rs. 16,104</b>	<b>Rs. -</b>	<b>Rs. 262</b>	<b>Rs. 63,822</b>	<b>Rs. 63,822</b>
<b>Liabilities:</b>							
Trade and other payables		Rs. -	Rs. -	Rs. 13,417	Rs. -	Rs. 13,417	Rs. 13,417
Derivative financial instruments		-	-	-	10	10	10
Long-term borrowings	12	-	-	5,571	-	5,571	5,571
Short-term borrowings	12	-	-	43,539	-	43,539	43,539
Bank overdraft	4	-	-	87	-	87	87
Other liabilities and provisions <sup>(2)</sup>		-	-	20,391	-	20,391	20,391
<b>Total</b>		<b>Rs. -</b>	<b>Rs. -</b>	<b>Rs. 83,005</b>	<b>Rs. 10</b>	<b>Rs. 83,015</b>	<b>Rs. 83,015</b>

(1) Other assets that are not financial assets (such as receivables from statutory authorities, export benefit receivables, prepaid expenses, advances paid and certain other receivables) of Rs.16,227 and Rs.14,450 as of September 30, 2017 and March 31, 2017, 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.10,920 and Rs.11,570 as of September 30, 2017 and March 31, 2017, respectively, are not included.

**Fair value hierarchy**

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

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

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

The following table presents the fair value hierarchy of assets and liabilities measured at fair value on a recurring basis as of September 30, 2017:

Particulars	Level 1	Level 2	Level 3	Total
Available for sale - Financial asset - Investments in units of mutual funds	Rs. 13,636	Rs. -	Rs. -	Rs. 13,636
Available for sale - Financial asset - Investment in equity securities	2,690	-	-	2,690
Derivative financial instruments - net gain/(loss) on outstanding foreign exchange forward, option and swap contracts and interest rate swap contracts <sup>(1)</sup>	-	14	-	14

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**8. Financial instruments (continued)**

The following table presents the fair value hierarchy of assets and liabilities measured at fair value on a recurring basis as of March 31, 2017:

<b>Particulars</b>	<b>Level 1</b>		<b>Level 2</b>		<b>Level 3</b>		<b>Total</b>
Available for sale - Financial asset - Investments in units of mutual funds	Rs.	11,141	Rs.	-	Rs.	-	Rs. 11,141
Available for sale - Financial asset - Investment in equity securities		4,962		-		-	4,962
Derivative financial instruments – net gain/(loss) on outstanding foreign exchange forward, option and swap contracts and interest rate swap contracts <sup>(1)</sup>		-		252		-	252

<sup>(1)</sup> The Company enters into derivative contracts 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 September 30, 2017 and March 31, 2017, 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.

**9. Property, plant and equipment**

*Acquisitions and disposals*

	<b>For the six months ended September 30, 2017</b>		<b>For the six months ended September 30, 2016</b>		<b>For the year ended March 31, 2017</b>
Cost of assets acquired during the period	Rs.	4,709	Rs.	5,956	Rs. 11,622
Net book value of assets disposed of during the period		48		33	62
Loss/(gain) on disposal during the period		(2)		6	80

*Depreciation expense*

	<b>For the six months ended September 30,</b>		<b>For the three months ended September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Cost of revenues	Rs. 3,159	Rs. 2,781	Rs. 1,606	Rs. 1,443
Selling, general and administrative expenses	383	362	190	190
Research and development expenses	544	514	282	264
	<b>Rs. 4,086</b>	<b>Rs. 3,657</b>	<b>Rs. 2,078</b>	<b>Rs. 1,897</b>

*Capital commitments*

As of September 30, 2017 and March 31, 2017, the Company was committed to spend Rs.4,322 and Rs.5,256, respectively, under agreements to purchase property, plant and equipment. This amount is net of capital advances paid in respect of such purchase commitments.

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**10. Goodwill**

Goodwill arising on business combinations 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 during the six months ended September 30, 2017 and the year ended March 31, 2017:

	As of	
	September 30, 2017	March 31, 2017
Opening balance, gross <sup>(1)</sup>	Rs. 20,026	Rs. 20,122
Goodwill arising on business combinations during the period <sup>(2)</sup>	-	10
Effect of translation adjustments	131	(106)
Impairment loss <sup>(3)</sup>	(16,274)	(16,274)
Closing balance <sup>(1)</sup>	<b>Rs. 3,883</b>	<b>Rs. 3,752</b>

- (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 equity accounted investees.
- (2) Rs.10 as of March 31, 2017 represents goodwill arising from the acquisition of Imperial Credit Private Limited.
- (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 during the years ended March 31, 2009 and 2010.

**11. Other intangible assets**

During the three months and six months ended September 30, 2017, the Company acquired intangible assets at an aggregate cost of Rs.1,384 and Rs.1,935, respectively (as compared to a cost of Rs.23,757 and Rs.28,312 for the three months and six months ended September 30, 2016, respectively and Rs.29,205 for the year ended March 31, 2017).

Additions to intangible assets during the six months ended September 30, 2016 include:

- Rs.23,366 (U.S.\$350), representing the consideration paid to Teva Pharmaceutical Industries Limited ("Teva") to acquire eight Abbreviated New Drug Applications ("ANDAs") in the United States forming part of the Company's Global Generics segment (refer to Note 27 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 27 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 27 of these interim financial statements for further details).

*Amortization of other intangible assets*

	For the six months ended September 30,		For the three months ended September 30,	
	2017	2016	2017	2016
Selling, general and administrative expenses	Rs. 1,458	Rs. 1,619	Rs. 760	Rs. 815
Cost of revenues	130	151	70	76
Research and development expenses	66	101	33	59
	<b>Rs. 1,654</b>	<b>Rs. 1,871</b>	<b>Rs. 863</b>	<b>Rs. 950</b>

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**12. Loans and borrowings**

*Short-term borrowings*

The Company had net short-term borrowings of Rs.28,579 as of September 30, 2017, as compared to Rs.43,539 as of March 31, 2017. The borrowings primarily consist of "packing credit" loans drawn by the parent company and other unsecured loans drawn by certain of its subsidiaries in Switzerland, Germany, the United States, Russia and Ukraine.

Short-term borrowings consist of the following:

	As at	
	September 30, 2017	March 31, 2017
Packing credit borrowings	Rs. 22,822	Rs. 18,699
Other foreign currency borrowings	5,757	24,840
	<b>Rs. 28,579</b>	<b>Rs. 43,539</b>

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

	As at			
	September 30, 2017		March 31, 2017	
	Currency <sup>(1)</sup>	Interest Rate	Currency	Interest Rate
Packing credit borrowings	USD	LIBOR + (30) to 0 bps	USD	LIBOR + (30) to 1 bps
	-	-	USD	0.01%
	INR	T-Bill + 30bps	INR	T-Bill + 30bps
	INR	6.00%	INR	6.92% to 6.95%
	RUB	9.50%	RUB	9.95%
Other foreign currency borrowings	USD	LIBOR + 75 to 85 bps	USD	LIBOR + 40 to 60 bps
	RUB	9.43%	RUB	10.48%
	UAH	11.70% to 14.00%	-	-

(1) "INR" means Indian rupees, "RUB" means Russian roubles, and "UAH" means Ukrainian hryvnia.

*Short-term borrowing by Dr. Reddy's Laboratories, SA*

During the three months ended September 30, 2016, Dr. Reddy's Laboratories, SA, one of the Company's subsidiaries in Switzerland (the "Swiss Subsidiary"), borrowed U.S.\$350 from certain institutional lenders at interest rates ranging from Libor plus 0.45% to 0.60% per annum. The borrowing was solely for the purpose of acquiring eight ANDAs from Teva in the United States (refer to Note 27 of these interim financial statements for additional details). The entire short-term borrowing of U.S.\$350 was repaid during the three months ended June 30, 2017.

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**12. Loans and borrowings (continued)**

*Long-term borrowings*

Long-term borrowings, measured at amortized cost, consist of the following:

	As at	
	September 30, 2017	March 31, 2017
Foreign currency borrowing by the parent company	Rs. 4,887	Rs. 4,852
Foreign currency borrowing by the Swiss Subsidiary	16,198	-
Foreign currency borrowing by the Company's German subsidiary Reddy Holding GmbH	3,239	-
Obligations under finance leases	704	707
	<b>Rs. 25,028</b>	<b>Rs. 5,559</b>
<b>Current portion</b>		
Obligations under finance leases	Rs. 76	Rs. 110
	<b>Rs. 76</b>	<b>Rs. 110</b>
<b>Non-current portion</b>		
Foreign currency borrowing by the parent company	Rs. 4,887	Rs. 4,852
Foreign currency borrowing by the Swiss Subsidiary	16,198	-
Foreign currency borrowing by the Company's German subsidiary Reddy Holding GmbH	3,239	-
Obligations under finance leases	628	597
	<b>Rs. 24,952</b>	<b>Rs. 5,449</b>

*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 54<sup>th</sup> month and continuing until the end of the 66<sup>th</sup> 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 40<sup>th</sup> month, 43<sup>rd</sup> month and 46<sup>th</sup> month after the date the loan was made.

*Long-term bank loan of subsidiary companies*

During the three months ended June 30, 2017, the Company entered into a refinancing arrangement with certain financial institutions relating to the short-term borrowing of U.S.\$350 in the Swiss Subsidiary. Pursuant to such arrangement, the Company repaid the short-term borrowing of U.S.\$350 and incurred long-term borrowings of U.S.\$250 in the Swiss Subsidiary and EUR 42 in the Company's German subsidiary, Reddy Holding GmbH. The aforesaid loans are repayable over a 36 month period commencing at the end of the 24<sup>th</sup> month and continuing through the 60<sup>th</sup> month following the date of the loan agreement.

All of the foregoing loan agreements impose various financial covenants on the Company. As of September 30, 2017, the Company was in compliance with all such financial covenants.

The interest rate profiles of long-term borrowings (other than obligations under finance leases) as at September 30, 2017 and March 31, 2017 were as follows:

	As at			
	September 30, 2017		March 31, 2017	
	Currency	Interest Rate	Currency	Interest Rate
Foreign currency borrowings	USD	LIBOR + 45 to 82.7 bps	USD	LIBOR + 82.7 bps
	EUR	0.81%	-	-

*Undrawn lines of credit from banks*

The Company had undrawn lines of credit of Rs.21,300 and Rs.21,156 as of September 30, 2017 and March 31, 2017, respectively, from its banks for working capital requirements. The Company has the right to draw upon these lines of credit based on its working capital requirements.



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**13. Other (income)/expense, net**

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

	For the six months ended September 30,		For the three months ended September 30,	
	2017	2016	2017	2016
(Gain)/loss on sale/disposal of property, plant and equipment and other intangibles, net	Rs. (2)	Rs. 6	Rs. (6)	Rs. 2
Sale of spent chemicals	(133)	(109)	(74)	(60)
Miscellaneous income, net	(173)	(270)	(34)	(219)
	<b>Rs. (308)</b>	<b>Rs. (373)</b>	<b>Rs. (114)</b>	<b>Rs. (277)</b>

**14. Finance (expense)/income, net**

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

	For the six months ended September 30,		For the three months ended September 30,	
	2017	2016	2017	2016
Interest income	Rs. 207	Rs. 348	Rs. 64	Rs. 77
Dividend and profit on sale of other investments <sup>(1)</sup>	371	663	88	377
Foreign exchange gain/(loss), net	57	73	47	37
Interest expense	(438)	(274)	(223)	(126)
	<b>Rs. 197</b>	<b>Rs. 810</b>	<b>Rs. (24)</b>	<b>Rs. 365</b>

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

**15. Share capital and share premium**

The following table presents the changes in number of equity shares and amount of equity share capital for the six months ended September 30, 2017 and September 30, 2016:

	As of September 30, 2017		As of September 30, 2016	
	Number	Amount	Number	Amount
Opening number of equity shares	165,741,713	Rs. 829	170,607,653	Rs. 853
Issue of equity shares on exercise of options <sup>(1)</sup>	137,564	0	180,636	1
Buyback of equity shares <sup>(2)</sup>	-	-	(5,077,504)	(25)
Closing number of equity shares	<b>165,879,277</b>	<b>Rs. 829</b>	<b>165,710,785</b>	<b>Rs. 829</b>

(1) During the six months ended September 30, 2017 and 2016, there were 137,564 and 180,636 equity shares, respectively, 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. Upon the exercise of such options, the amount of compensation cost (computed using the grant date fair value) previously recognized in the "share based payment reserve" was transferred to "share premium" in the unaudited condensed consolidated statements of changes in equity.

(2) 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. The plan involved the purchase of such shares from shareholders of the Company (including persons who become shareholders by cancelling American Depository Shares and receiving underlying equity shares, and excluding the promoters and promoter group of the Company) under the open market route in accordance with the provisions contained in the Securities and Exchange Board of India (Buy Back of Securities) Regulations, 1998 and the Companies Act, 2013 and rules made thereunder. The shares bought back under this plan were required to be extinguished in accordance with the provisions of the Securities and Exchange Board of India (Buy Back of Securities) Regulations, 1998 and the Companies Act, 2013 and rules made thereunder.

The Company's shareholders approved the buyback plan on April 1, 2016, and implementation of the buyback plan commenced on April 18, 2016 and ended on June 28, 2016. Under this plan, the Company 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.

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**16. 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 six months ended September 30, 2017 under the above plans were as follows:

<b>Particulars</b>	<b>Number of instruments</b>	<b>Exercise price</b>	<b>Vesting period</b>	<b>Contractual life</b>
DRL 2002 Plan	151,712	Rs. 5.00	1 to 4 years	5 years
DRL 2007 Plan	63,304	Rs. 5.00	1 to 4 years	5 years

The above grants were made on May 11, 2017.

The terms and conditions of the grants made during the six months ended September 30, 2016 under the above plans were as follows:

<b>Particulars</b>	<b>Number of instruments</b>	<b>Exercise price</b>	<b>Vesting period</b>	<b>Contractual life</b>
DRL 2002 Plan	102,640	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 and September 20, 2016.

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 was measured each year against pre-defined interim targets over the three year period ended on March 31, 2017 and eligible employees were granted stock options upon meeting such targets. The stock options so granted will vest only upon satisfaction of certain service 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.

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

	<b>May 11, 2017</b>	<b>September 20, 2016</b>	<b>July 26, 2016</b>
Expected volatility	30.08%	32.92%	29.88%
Exercise price	Rs. 5.00	Rs. 5.00	Rs. 5.00
Option life	2.5 Years	2.5 Years	2.5 Years
Risk-free interest rate	6.69%	6.81%	6.91%
Expected dividends	0.77%	0.60%	0.60%
Grant date share price	Rs. 2,594.00	Rs. 3,157.80	Rs. 3,319.65

*Share-based payment expense*

	<b>For the six months ended September 30,</b>		<b>For the three months ended September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Cash settled share-based payment expense <sup>(1)</sup>	7	11	(2)	4
Equity settled share-based payment expense <sup>(2)</sup>	214	148	103	78
	<b>221</b>	<b>159</b>	<b>101</b>	<b>82</b>

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**16. Employee stock incentive plans (continued)**

- (1) Certain of the Company's employees are eligible to receive share based payment awards that are settled in cash. These awards would vest only upon satisfaction of certain service conditions which range from 1 to 4 years. These awards entitle the employees to a cash payment on the vesting date. The amount of the cash payment is determined based on the price of the Company's ADSs at the time of vesting. As of September 30, 2017, there was Rs.108 of total unrecognized compensation cost related to unvested awards. This cost is expected to be recognized over a weighted-average period of 3.45 years. This scheme does not involve dealing in or subscribing to or purchasing securities of the Company, directly or indirectly.
- (2) As of September 30, 2017, there was Rs.515 of total unrecognized compensation cost related to unvested stock options. This cost is expected to be recognized over a weighted-average period of 3.11 years.

**17. 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 invested in bonds issued by the Government of India, in debt securities and equity securities of Indian companies.

For the three months and six months ended September 30, 2017, the net periodic benefit cost was Rs.65 and Rs.129, respectively (as compared to Rs.59 and Rs.118 for the three months and six months ended September 30, 2016, 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 them 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.948 and Rs.855 as at September 30, 2017 and March 31, 2017, respectively.

*Long term incentive plan*

Certain senior management employees of the Company participate in a long term incentive plan which is aimed at rewarding the individual, based on performance of such individual, their business unit/function and the Company as a whole, with significantly higher rewards for superior performances. The total liability recorded by the Company towards this benefit was Rs.622 as at March 31, 2017. The plan ended on March 31, 2017 and the liability has been paid.

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**18. 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 six months ended September 30, 2017 and 2016 was 26% and 24%, respectively. Income tax expense was Rs.1,208 for the six months ended September 30, 2017, as compared to income tax expense of Rs.1,329 for the six months ended September 30, 2016.

The Company's consolidated weighted average tax rate for the three months ended September 30, 2017 and 2016 was 26.5% and 23.1%, respectively. Income tax expense was Rs.1,027 for the three months ended September 30, 2017, as compared to income tax expense of Rs.885 for the three months ended September 30, 2016.

The effective rates of tax for the three months and six months ended September 30, 2016 were lower primarily on account of tax deduction claimed on sale of investments.

Total tax benefits recognized directly in the equity were Rs.172 and Rs.522 for the three months and six months ended September 30, 2017, respectively (as compared to tax expenses of Rs.461 and Rs.476 for the three months and six months ended September 30, 2016, 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 the foreign exchange gain/loss on cash flow hedges.

**19. Related parties**

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

- Green Park Hotel and Resorts Limited for hotel services;
- Green Park Hospitality Services Private Limited for catering 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 close members of their families.

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 six months ended September 30,		For the three months ended September 30,	
	2017	2016	2017	2016
Research and development services received	Rs. 40	Rs. 57	Rs. 15	Rs. 33
Contributions towards social development	122	151	73	72
Hotel expenses paid	23	19	8	9
Catering expenses paid	74	-	63	-
Lease rentals paid under cancellable operating leases to key management personnel and close members of their families	18	20	8	10

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**19. Related parties (continued)**

The Company had the following amounts due from related parties as at the following dates:

	As at	
	September 30, 2017	March 31, 2017
Key management personnel and close members of their families (towards rent deposits)	Rs. 8	Rs. 8
Other related parties	39	-

The Company had the following amounts due to related parties as at the following dates:

	As at	
	September 30, 2017	March 31, 2017
Due to related parties	Rs. 1	Rs. 9

The following table describes the components of compensation paid or payable to key management personnel for the services rendered during the applicable period:

	For the six months ended September 30,		For the three months ended September 30,	
	2017	2016	2017	2016
Salaries and other benefits <sup>(1)</sup>	Rs. 222	Rs. 213	Rs. 114	Rs. 108
Contributions to defined contribution plans	15	14	8	7
Commission to directors	165	165	82	82
Share-based payments expense	47	29	22	16
	<b>Rs. 449</b>	<b>Rs. 421</b>	<b>Rs. 226</b>	<b>Rs. 213</b>

<sup>(1)</sup> In addition to the above, the Company has accrued Rs.0 towards a long term incentive plan for the services rendered by key management personnel for the three months and six months ended September 30, 2017, respectively (as compared to Rs.41 and Rs.60 for the three months and six months ended September 30, 2016). Refer to Note 17 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.

**20. Nature of Expense**

The following table shows supplemental information related to certain "nature of expense" items for the six months and three months ended September 30, 2017 and 2016:

	For the six months ended September 30,		For the three months ended September 30,	
	2017	2016	2017	2016
<b>Employee benefits</b>				
Cost of revenues	Rs. 5,202	Rs. 5,421	Rs. 2,566	Rs. 2,754
Selling, general and administrative expenses	8,336	8,327	4,111	4,163
Research and development expenses	2,425	2,463	1,213	1,244
	<b>Rs. 15,963</b>	<b>Rs. 16,211</b>	<b>Rs. 7,890</b>	<b>Rs. 8,161</b>
<b>Depreciation and amortization</b>				
Cost of revenues	Rs. 3,289	Rs. 2,932	Rs. 1,676	Rs. 1,519
Selling, general and administrative expenses	1,841	1,981	950	1,005
Research and development expenses	610	615	315	323
	<b>Rs. 5,740</b>	<b>Rs. 5,528</b>	<b>Rs. 2,941</b>	<b>Rs. 2,847</b>

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**21. 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 believed strengthened its defense against the demand. For example, the Company added as grounds that trade margins should not be included in the computation of amounts overcharged, and that it was necessary for the NPPA to set the active pharmaceutical ingredient price before the process of determining the ceiling on the formulation price. In October 2013, the Company filed an additional writ petition before the Supreme Court challenging the inclusion of Norfloxacin as a "specified product" under the DPCO. In January 2015, the NPPA filed a counter affidavit stating that the inclusion of Norfloxacin was based upon the recommendation of a committee consisting of experts in the field. On July 20, 2016, the Supreme Court remanded the matters concerning the inclusion of Norfloxacin as a "specified product" under the DPCO back to the High Court for further proceedings. During the three months ended December 31, 2016, a writ petition pertaining to Norfloxacin was filed by the Company with the Delhi High Court. Such writ petition is pending for admission.

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**21. Contingencies (continued)**

*Product and patent related matters (continued)*

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.

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

*Litigation relating to Cardiovascular and Anti-diabetic formulations*

In July 2014, the NPPA, pursuant to the guidelines issued in May 2014 and the powers granted by the Government of India under the Drugs (Price Control) Order, 2013, issued certain notifications regulating the prices for 108 formulations in the cardiovascular and antidiabetic therapeutic areas. The Indian Pharmaceutical Alliance ("IPA"), in which the Company is a member, filed a writ petition in the Bombay High Court challenging the notifications issued by the NPPA on the grounds that they were ultra vires, ex facie and ab initio void. The Bombay High Court issued an order to stay the writ in July 2014. On 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 allegations that the Company exceeded the notified maximum prices for 11 of its products. The Company has responded to these notices.

On March 20, 2017, the IPA filed an application before the Bombay High Court for the recall of the judgment of the High Court dated September 26, 2016 on the grounds that certain information important for the determination of the issue was not disclosed by the counsel representing the Union of India during the proceedings before the Bombay High Court.

On April 26, 2017, the Bombay High Court heard the recall application and directed the matter to the same bench of judges of the Bombay High Court which passed the original judgment on September 26, 2016. Further, it also directed the Union of India and others to file their reply. This recall application filed by the IPA was dismissed by the Bombay High Court on October 4, 2017.

During the three months ended March 31, 2017, the NPPA issued notices to the Company demanding payments relating to the foregoing products for the allegedly overcharged amounts, along with interest. The Company has responded to these notices. Further, the Company filed a writ petition with the Delhi High Court on July 7, 2017. The Delhi High Court disposed of the writ petition on July 13, 2017, by setting aside all the demand notices of the NPPA and directed the NPPA to provide a personal hearing to the Company and pass a speaking order thereupon within a period of two weeks. A personal hearing in this regard was held on July 21, 2017. On July 27, 2017, the NPPA passed a speaking order along with the demand notice directing the Company to pay an amount of Rs.776. On August 3, 2017, the Company filed a writ petition challenging the speaking order and the demand notice. Upon hearing the matter on August 8, 2017, the Delhi High Court stayed the operation of the demand order and directed the Company to deposit Rs.100 and furnish a bank guarantee for Rs.676 within six weeks. Pursuant to the order, the Company deposited Rs.100 on September 13, 2017 and submitted a bank guarantee of Rs.676 dated September 15, 2017 to the Registrar General, Delhi High Court.

Based on its best estimate, the Company has recorded a provision of Rs.395 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.

However, if the Company is unsuccessful in such litigation, it will be required to remit the sale proceeds in excess of the notified selling prices to the Government of India with interest and could potentially include penalties, which amounts are not readily ascertainable.

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**21. Contingencies (continued)**

*Product and patent related matters (continued)*

*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.

*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.

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



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**21. Contingencies (continued)**

*Product and patent related matters (continued)*

The Company filed its response to the FCA Complaint on February 23, 2016 in the form of a motion to dismiss for failure to state a claim upon which relief can be granted. On March 26, 2017, the Court granted the Company's motion to dismiss, dismissing the FCA Complaint and allowing the plaintiffs one more chance to refile this complaint in an attempt to plead sustainable allegations. On March 29, 2017, the plaintiffs filed their final amended FCA Complaint, which the Company is vigorously opposing and seeking permanent dismissal of this amended FCA Complaint with prejudice.

Although the DOJ and applicable States have declined to intervene in the FCA Complaint filed by the plaintiffs, the parallel investigation by the CPSC under the CPSA and the PPPA was referred by the CPSC to the DOJ's office in Washington, D.C. in April 2016, with the recommendation that the DOJ initiate a civil penalty action against the Company. The CPSC matter referred to the DOJ relates to five of the blister pack products. 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 seek 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 parties in the *JM Smith* case have served the Company with subpoenas, in response to which the Company produced the specific documents subpoenaed and provided testimony in a deposition.

Four other class action complaints, each containing similar allegations to the Sergeants complaint, have also been filed in the 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.

*Class Action and Other Civil Litigation on Pricing/Reimbursement Matters*

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

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**21. Contingencies (continued)**

*Product and patent related matters (continued)*

The First Pricing Complaint was removed to the Federal Court and, pending the outcome of the First Pricing Complaint, the Second Pricing Complaint was stayed. On September 25, 2017, the Federal Court dismissed all the claims of the plaintiffs in the First Pricing Complaint and denied leave to amend such complaint as futile. Subsequent to this decision, the plaintiffs had the right to appeal the dismissal of the First Pricing Complaint which has expired.

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 ("E.D.P.A."). Subsequently, these complaints were consolidated into one amended complaint as part of a multi-district, multi-product litigation pending with the District Court for the E.D.P.A. These complaints allege that the Company and the other named defendants have engaged in a conspiracy to fix prices and to allocate bids and customers in the sale of pravastatin sodium tablets and divalproex sodium extended-release tablets in the United States. In March 2017, plaintiffs agreed by stipulation to dismiss Dr. Reddy's Laboratories Inc. and Dr. Reddy's Laboratories Limited from the actions related to pravastatin sodium tablets without prejudice. The Company denies any wrongdoing and intends to vigorously defend against these allegations.

The Company believes that the likelihood of any liability that may arise on account of any of these complaints is not probable. Accordingly, no provision has been made in these 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 the production and supply of the active pharmaceutical ingredient ("API") for udenafil (a patented compound) and an udenafil finished dosage product during a period from calendar years 2007 to 2015. Mezzion alleges that the Company failed to comply with the U.S. FDA's current Good Manufacturing Practices ("cGMP") at the time of manufacture of the API and finished dosage forms of udenafil and, consequently, that this resulted in a delay in the filing of a NDA for the product by Mezzion. The Company denies any wrongdoing or liability in this regard, and intends to vigorously defend against the claims asserted in Mezzion's complaint. The Company believes that the likelihood of any liability that may arise on account of this complaint is not probable. Accordingly, no provision was made in the interim financial statements of the Company.

*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 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 has challenged the constitution and composition of the Fact Finding Committee. The NGT has directed that until all the applications challenging the constitution and composition of the Fact Finding Committee are disposed of, the Fact Finding Committee shall not commence its operation.

The NGT, Chennai vide its judgment dated October 24, 2017 disposed of the matter. The Company believes that any additional liability arising in this regard is not material to the interim financial statements.

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**21. 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 demand notices to the Company objecting to the Company's methodology of distributing input service tax credits claimed for one of the Company's facilities. The below table shows the details of each such demand notice, the amount demanded and the current status of the Company's responsive actions.

<b>Period covered under the notice</b>	<b>Amount demanded</b>	<b>Status</b>
March 2008 to September 2009	Rs.102 plus penalties of Rs.102 and interest	The Company has filed an appeal before the CESTAT.
October 2009 to March 2011	Rs.125 plus penalties of Rs.100 and interest	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 filed an appeal before the CESTAT.

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**21. 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 September 30, 2017.

*Value Added Tax ("VAT") matter*

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

Period covered under the notice	Amount demanded	Status
April 2006 to March 2009	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 September 30, 2017, and believes that the likelihood of any further liability that may arise on account of the allegedly inappropriate claims to VAT credits is not probable.

*Others*

Additionally, the Company is in receipt of various demand notices from the Indian Sales and Service Tax authorities. The disputed amount is Rs.174. The Company has responded to such demand notices and believes that the chances of any liability arising from such notices are less than probable. Accordingly, no provision is made in these interim financial statements as of September 30, 2017.

*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, 2017, 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*

The Company is contesting various 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 September 30, 2017.

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**21. Contingencies (continued)**

*Direct taxes related matters (continued)*

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 December 31, 2006, December 31, 2007 and December 31, 2008. The associated tax impact is Rs.674 (MXN 187.4) and the Company has filed administrative appeals with the SAT by challenging these disallowances. During February and March 2017, the Company received orders of the SAT confirming these disallowances by dismissing its administrative appeals filed earlier. The Company disagrees with the SAT's disallowances and filed an appeal with the Tribunal Federal de Justicia Administrativa (Federal Tax and Administrative Court of Mexico) in March and April 2017.

The Company believes that possibility of any liability that may arise on account of this litigation is not probable. Accordingly, no provision has been made in these interim financial statements as of September 30, 2017.

*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.

**22. 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, the fair value of which 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. 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 additional 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 subject to a lock-up agreement. 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.

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**22. Collaboration agreement with Curis, Inc. (continued)**

This arrangement is accounted for as a joint operation under IFRS 11. Further, the Company has also 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.

A loss of Rs.40 arising from changes in the fair value of such shares of common stock was recorded in other comprehensive income as of September 30, 2017.

**23. Collaboration Agreement with Merck Serono**

On June 6, 2012, the Company entered into a collaboration agreement with the biosimilars division of Merck KGaA, Darmstadt, Germany, formerly known as Merck Serono (hereinafter, "Merck KGaA"), 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 undertook commercialization based on their respective regional rights as defined in the agreement. The Company leads and supports early product development towards or including Phase 1 development. Merck KGaA carries out manufacturing of the compounds and leads further development for its territories. The Company carries out its own development, wherever applicable, for commercialization in its exclusive and co-exclusive territories. The Company will continue to receive royalty payments upon commercialization by Merck KGaA in its territories.

During the year ended March 31, 2016, 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.

On April 24, 2017, Fresenius SE & Co. KGaA and Merck KGaA announced that Fresenius Kabi will acquire Merck's Biosimilars business. The transaction was subject to regulatory approvals and other customary closing conditions. All the approvals from the relevant authorities were obtained in the month of August 2017. Upon completion of the transaction, the Company's collaboration will continue as planned, with Fresenius Kabi. The transaction was completed on September 1, 2017.

**24. 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 current Good Manufacturing Practice ("cGMP") deviations at its active pharmaceutical ingredient ("API") manufacturing facilities at Srikakulam, Andhra Pradesh and Miryalaguda, Telangana, as well as violations at its oncology formulation manufacturing facility at Duvvada, Visakhapatnam, Andhra Pradesh. The contents of the warning letter emanated from Form 483 observations that followed inspections of these sites by the U.S. FDA in November 2014, January 2015 and February-March 2015, respectively.

The warning letter does not restrict production or shipment of the Company's products from these facilities. However, unless and until the Company is able to correct outstanding issues to the U.S. FDA's satisfaction, the U.S. FDA may withhold approval of new products and new drug applications of the Company, refuse admission of products manufactured at the facilities noted in the warning letter into the United States, and/or take additional regulatory or legal action against the Company. Any such further action could have a material and negative impact on the Company's ongoing business and operations. During the years ended March 31, 2016 and 2017, the U.S. FDA withheld approval of new products from these facilities pending resolution of the issues identified in the warning letter. To minimize the business impact, the Company transferred certain key products to alternate manufacturing facilities.

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**24. Receipt of warning letter from the U.S. FDA (continued)**

Subsequent to the issuance of the warning letter, the Company promptly instituted corrective actions and preventive actions and submitted a comprehensive response to the warning letter to the U.S. FDA, followed by periodic written updates and in-person meetings with the U.S. FDA. The U.S. FDA completed the re-inspection of the aforementioned manufacturing facilities in the months of March and April 2017. During the re-inspections, the U.S. FDA issued three observations with respect to the API manufacturing facility at Miryalaguda, two observations with respect to the API manufacturing facility at Srikakulam and thirteen observations with respect to the oncology formulation manufacturing facility. The Company has responded to these observations identified by the U.S. FDA, and believes that it can resolve them satisfactorily in a timely manner.

In June 2017, the U.S. FDA issued an establishment inspection report which indicates that the inspection of the Company's API manufacturing facility at Miryalaguda is closed.

*Inspection of other facilities:*

The inspection of the Company's CPS facility in Hyderabad, India was completed by the U.S.FDA on September 21, 2017 with zero observations.

The inspection of the Company's API facility in Mirfield, United Kingdom was completed by the U.S.FDA on September 15, 2017 and the Company was issued with a Form 483 with three observations. The Company has responded to these observations identified by the U.S. FDA, and believes that it can resolve them satisfactorily in a timely manner.

In July 2017, inspection of the Company's API facility in Cuernavaca, Mexico was completed by the U.S. FDA with zero observations.

**25. Receipt of communication from a regulatory authority of Bavaria, Germany**

In August 2017, the Company's German subsidiary betapharm Arzneimittel GmbH received a letter from a regulatory authority of Bavaria, Germany (the Regierung von Oberbayern, which is the Central Authority for Supervision of Medicinal Products in Bavaria of the Upper Bavarian government), that the GMP compliance certificate for the Company's formulations manufacturing facility at Bachupally, Hyderabad was not renewed as the result of GMP compliance deviations identified in an inspection. Consequently, this manufacturing facility will not be permitted to export further products to the European Union until there is satisfactory resolution of the issues identified in the inspection and the facility's GMP compliance certificate is renewed. The Company has developed corrective action plans relating to the issues identified in the inspection, and is working diligently to implement them.

Furthermore, on September 7, 2017, the aforementioned regulatory authority concluded an inspection of the Company's formulations manufacturing facility at Duvvada, Vishakapatnam, with zero critical and six major observations. Products manufactured at the facility are not currently exported to the European Union ("EU"). The Company has submitted a Corrective and Preventive Action Plan ("CAPA") to the authorities in this regard. The inspector has cautioned that the facility will receive EU-GMP certification from the Regulator upto November 2018 only when the regulator approves the CAPA. The facility's compliance with the CAPA and other applicable regulations will be reviewed again by the Regulator by November 2018 for continuation of the facility's EU-GMP certification.

**26. 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 its then existing exchange rate system and introduced a new exchange rate mechanism. The Marginal Currency System (known as "SIMADI") was the third tier in the new three-tier exchange rate regime introduced and allowed 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 (known as "SICAD") was introduced with an initial rate of approximately 12 VEF per U.S.\$1.00. The first tier (known as "CENCOEX"), the official exchange rate, was unchanged and sold dollars at 6.3 VEF per U.S.\$1.00 for preferential goods.

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**26. Venezuela operations (continued)**

In February 2016, the Venezuelan government announced further changes to its foreign currency exchange mechanisms, including the devaluation of its official exchange rate.

- 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 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.

The above changes became effective as of March 10, 2016.

*Impact on the performance of the Company:*

Tabulated below was the impact of the foregoing on the consolidated income statements of the Company for the years ended March 31, 2015 and 2016:

<b>Particulars</b>	<b>Year ended March 31,</b>			
	<b>2015</b>		<b>2016</b>	
Foreign exchange loss due to currency devaluation and translation of monetary assets and liabilities using SIMADI/DICOM rate recorded under finance expense	Rs.	843	Rs.	4,621
Impact of inventory write down and reversal of export incentives recorded under cost of revenues		-		341
Impairment of property, plant and equipment recorded under selling, general and administrative expenses		-		123
<b>Total</b>	<b>Rs.</b>	<b>843</b>	<b>Rs.</b>	<b>5,085</b>

*Update during the six months ended September 30, 2017*

In May 2017, the Venezuelan government announced its intent to bring in a new mechanism for operation of the DICOM rate through an auction system. Subsequently, the Venezuelan government completed its first auction offering under DICOM, resulting in a DICOM rate of VEF 2,010 per U.S.\$1.00. As of September 30, 2017, the DICOM rate was VEF 3,345 per U.S.\$1.00. The Company continues to use the DICOM rate for translating the monetary assets and liabilities of the Venezuelan subsidiary. As a result, foreign exchange loss of Rs.6 and Rs.34 was recognized for the three months and six months ended September 30, 2017, respectively.

No revenues were earned from Venezuela for the three months and six months ended September 30, 2017 (as compared to revenues of Rs.1 and Rs.9 for the three months and six months ended September 30, 2016, respectively).

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



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**27. Significant asset purchase agreements**

Tabulated below are certain significant asset purchase agreements entered into by the Company during its fiscal years ended March 31, 2015, 2016 and 2017:

Month and Year	Counterparty	Brief particulars of the asset / agreement	Useful life	Carrying cost as on September 30, 2017	
October 2014	Novartis Consumer Health Inc.	Acquisition of the title and rights to Habitrol® brand (an over-the-counter nicotine replacement therapy transdermal patch) and to market the product in the United States, all for an aggregate consideration of Rs.5,097.	8 years	Rs.	3,209
June 2015	UCB India Private Limited and affiliates	Purchase of a select portfolio of established products business in the territories of India, Nepal, Sri Lanka and Maldives to strengthen our presence in the areas of dermatology, respiratory and pediatric products, all for a total purchase consideration of Rs.8,000.	9 to 15 years	Rs.	6,332
September 2015	Hatchtech Pty Limited	Purchase of intellectual property rights of an innovative prescription head lice product, Xeglyze™ lotion. Consideration was an upfront amount of Rs.606 plus certain milestone-based payments.	Not available for use yet	Rs.	1,007
November 2015	Alchemia Limited	Purchase of worldwide, exclusive intellectual property rights to fondaparinux sodium, all for an aggregate consideration of Rs.1,158.	4 years	Rs.	596
March 2016	XenoPort, Inc.	Purchase of exclusive U.S. rights for the development and commercialization of XenoPort's clinical stage oral new chemical entity, all for an aggregate consideration of Rs.3,159. 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.	Not available for use yet	Rs.	3,186
March 2016 and September 2017	Eisai Company Limited	Acquisition of commercialization rights for an anti-cancer biologic agent (E7777) from Eisai Company Limited. The consideration was an upfront amount plus certain milestone-based payments.	Not available for use yet	Rs.	1,061
May 2016	Ducere Pharma LLC	Purchase of certain pharmaceutical brands to strengthen the Company's presence in the dermatology, cough-and-cold and pain therapeutic areas forming part of the Company's over-the-counter ("OTC") business in the United States, all for an aggregate consideration of Rs.1,148.	15 years	Rs.	1,016
November 2016	Gland Pharma Limited	Acquisition of the rights to in-license, market and distribute eight injectable ANDAs, all for an aggregate consideration of U.S.\$5.9.	Not available for use yet	Rs.	240
June 2016	Teva Pharmaceutical Industries Limited	Acquisition of eight ANDAs for U.S.\$350. The acquisition was consummated on August 3, 2016. The acquisition forms part of the Company's Global Generics segment.	Majority products not available for use yet <sup>(1)</sup>	Rs.	23,163 <sup>(2)</sup>

(1) During the three months ended June 30, 2017, the Company launched the product for one of the eight ANDAs acquired (ezetimibe and simvastatin tablets) in the United States of America. The carrying cost of the ANDA is Rs.748 and the useful life is eight years.

(2) Includes the carrying cost of the product launched.

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**28. Significant out-licensing agreements**

Month and Year	Counterparty	Brief particulars of the agreement
July 2017	CHD Biosciences Inc. ("CHD")	For the clinical development and commercialization of Company's Phase III clinical trial candidate, DFA-02. The Company is entitled to receive equity shares in CHD valued at U.S.\$30 upon an initial public offering of CHD or, if no initial public offering occurs within 18 months of execution of the agreement, a cash payment of U.S.\$30. The Company will also receive additional milestone payments of U.S.\$40 upon U.S. FDA approval. In addition, the Company is entitled to royalties on sales and certain other commercial milestone payments with respect to the product. At the time of execution, as the arrangement did not meet all the revenue recognition criteria under IAS 18, no revenue has been recognized for the transaction.
September 2017	Encore Dermatology Inc.	For the future development and commercialization of DFD-06. The consideration for out-licensing is as under: Upfront and approval milestones: U.S.\$20 ; Patent and commercial milestones: U.S.\$12.5. In addition, the Company is entitled to royalties on net sales. As the arrangement did not meet all the revenue recognition criteria under IAS 18, no revenue has been recognized for the transaction.

**29. Change in the functional currency of a foreign operation**

Until July 31, 2016, the functional currency of 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 27 of these interim financial statements for further details). The Company determined that the aforesaid transactions would have a significant impact on the primary economic environment of the Swiss Subsidiary and, accordingly, the Swiss Subsidiary's operating, investing and financing activities would 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".

**30. Subsequent events**

None.

## 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, 2017, and the unaudited condensed consolidated interim financial statements included in our report on Form 6-K for the three months ended June 30, 2017, all of which is on file with the SEC, and the unaudited condensed consolidated 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 they relate 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 September 30, 2017 compared to the three months ended September 30, 2016

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 September 30,						Increase/ (Decrease)
	2017		2016		Increase/ (Decrease)		
	Rs. in millions	% of Revenues	Rs. in millions	% of Revenues			
<b>Revenues</b>	<b>Rs. 35,460</b>	<b>100.0%</b>	<b>Rs. 35,857</b>	<b>100.0%</b>		<b>(1)%</b>	
<b>Gross profit</b>	<b>18,901</b>	<b>53.3%</b>	<b>20,097</b>	<b>56.0%</b>		<b>(6)%</b>	
Selling, general and administrative expenses	11,032	31.1%	11,774	32.8%		(6)%	
Research and development expenses	4,175	11.8%	5,214	14.5%		(20)%	
Other (income)/expense, net	(114)	(0.3)%	(277)	(0.8)%		(59)%	
<b>Results from operating activities</b>	<b>3,808</b>	<b>10.7%</b>	<b>3,386</b>	<b>9.4%</b>		<b>12%</b>	
Finance (expense)/income, net	(24)	(0.1)%	365	1.0%		(107)%	
Share of profit of equity accounted investees, net of tax	92	0.3%	84	0.2%		11%	
<b>Profit before tax</b>	<b>3,876</b>	<b>10.9%</b>	<b>3,835</b>	<b>10.7%</b>		<b>1%</b>	
Tax expense	1027	2.9%	885	2.5%		16%	
<b>Profit for the period</b>	<b>Rs. 2,849</b>	<b>8.0%</b>	<b>Rs. 2,950</b>	<b>8.2%</b>		<b>(3)%</b>	

### Revenues

Our overall consolidated revenues were Rs.35,460 million for the three months ended September 30, 2017, a decrease of 1% as compared to Rs.35,857 million for the three months ended September 30, 2016.

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

	For the three months ended September 30,						Increase/ (Decrease)
	2017		2016		Increase/ (Decrease)		
	Rs. in millions	Revenues % of Total	Rs. in millions	Revenues % of Total			
Global Generics	Rs. 28,618	81%	Rs. 28,995	81%		(1)%	
Pharmaceutical Services and Active Ingredients	5,654	16%	5,784	16%		(2)%	
Proprietary Products	748	2%	588	2%		27%	
Others	440	1%	490	1%		(10)%	
<b>Total</b>	<b>Rs. 35,460</b>	<b>100%</b>	<b>Rs. 35,857</b>	<b>100%</b>		<b>(1)%</b>	

## Segment Analysis

### Global Generics

Revenues from our Global Generics segment were Rs.28,618 million for the three months ended September 30, 2017, a decrease of 1% as compared to Rs.28,995 million for the three months ended September 30, 2016.

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:

- an increase of approximately 10% resulting from the introduction of new products during the intervening period;
- an increase of approximately 1% resulting from a net increase in the sales volume of existing products in this segment; and
- the foregoing was offset by a decrease of approximately 12% resulting from the net impact of changes in sales prices of the products in this segment.

*North America (the United States and Canada):* Our Global Generics segment's revenues from North America (the United States and Canada) were Rs.14,318 million for the three months ended September 30, 2017, a decrease of 11% as compared to the three months ended September 30, 2016. 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 10% in the three months ended September 30, 2017 as compared to the three months ended September 30, 2016.

This decrease in revenues was largely attributable to the following:

- price erosion, coupled with a decrease in sales volumes, of certain of our existing products of this segment; and
- the foregoing was partially offset by revenues from new products launched between October 1, 2016 and September 30, 2017, such as progesterone, ezetimibe and simvastatin and liposomal doxorubicin.

During the three months ended September 30, 2017, we launched four new products in North America (the United States and Canada). These new products were sevelamer carbonate tablets, cefixime OS (oral suspension), bupropion XL (extended release) and metaxalone tablets. No revenues were recorded from sevelamer carbonate tablets, as this product was launched towards the end of September, 2017.

During the three months ended September 30, 2017, we made 4 new ANDA filings and 1 new NDA filing under the section 505(b)(2) route with the U.S.FDA. As of September 30, 2017, our cumulative filings were 263 which includes 4 NDA filings under section 505(b)(2) and 259 ANDA filings. These 259 ANDA filings include 8 ANDAs acquired from Teva Pharmaceutical Industries Limited ("Teva"). Out of these filings, we had 103 filings pending approval at the U.S. FDA, which includes 3 NDA filings under section 505(b)(2) and 100 ANDA filings. Out of these 100 ANDA filings, 60 are Paragraph IV filings and we believe that we are the first to file with respect to 28 of these filings. Further, these 100 ANDAs which are pending for approval include 6 ANDAs acquired from Teva, of which 5 are Paragraph IV filings.

*India:* Our Global Generics segment's revenues from India for the three months ended September 30, 2017 were Rs.6,370 million, an increase of 2% as compared to the three months ended September 30, 2016. This growth was largely attributable to an increase in sales volumes of certain of our existing products and revenues from new brands launched in India between October 1, 2016 and September 30, 2017, which was partially offset by the decrease in sales prices of certain of our existing products. Prior to the transition to India's new Goods and Service Tax ("GST") regime, which became effective on July 1, 2017, the excise duty amount was recorded in revenues with a corresponding amount recorded in the cost of revenues. For periods effective on or after July 1, 2017, excise duty has been subsumed in the GST, and is not recorded in revenues or cost of revenues. Consequently, the revenues reported for periods subsequent to the GST transition no longer reflect excise duty, and the reported growth would therefore be lower.

According to IMS Health in its Moving Quarterly Total report for the three months ended September 30, 2017, our secondary sales in India declined by 1.1% during such period, as compared to the India pharmaceutical market's decline of 0.8% during such period. During the three months ended September 30, 2017, we launched 8 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) for the three months ended September 30, 2017 were Rs.5,506 million, an increase of 14% as compared to the three months ended September 30, 2016. The foregoing revenue increase was largely attributable to increased revenues from Russia, as described below.

*Russia:* Our Global Generics segment’s revenues from Russia for the three months ended September 30, 2017 were Rs.3,218 million, an increase of 20% as compared to the three months ended September 30, 2016. In Russian rouble absolute currency terms (i.e., Russian roubles without taking into account the effect of currency exchange rates), such revenues increased by 13% for the three months ended September 30, 2017 as compared to the three months ended September 30, 2016. Our over-the-counter (“OTC”) division’s revenues from Russia for the three months ended September 30, 2017 were 39% of our total revenues from Russia. This increase was mainly on account of an increase in the sales volume of our existing products and due to new products we launched between October 1, 2016 and September 30, 2017.

According to IMS Health, as per its report for the three months ended September 30, 2017, 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 for the three months ended September 30, 2017 was as follows:

	<b>For the three months ended September 30, 2017</b>			
	<b>Dr. Reddy's Laboratories</b>		<b>Russian pharmaceutical market</b>	
	<b>Sales value</b>	<b>Volume</b>	<b>Sales value</b>	<b>Volume</b>
Prescription (Rx)	(5.31)%	(6.69)%	4.11%	(1.63)%
Over-the-counter (OTC)	2.51%	(0.03)%	(0.55)%	(5.47)%
Total (Rx + OTC)	(2.43)%	(4.90)%	1.62%	(4.36)%

*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.921 million for the three months ended September 30, 2017, an increase of 3% as compared to the three months ended September 30, 2016. This increase was largely attributable to the increase in sales volumes of our existing major brands and revenues from new products launched between October 1, 2016 and September 30, 2017.

*“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.1,367 million for the three months ended September 30, 2017, an increase of 9% as compared to the three months ended September 30, 2016. This increase was largely due to higher contribution from new markets.

*Europe:* Our Global Generics segment’s revenues from Europe are primarily derived from Germany, the United Kingdom and our out-licensing business across Europe. Such revenues were Rs.2,424 million for the three months ended September 30, 2017, an increase of 37% as compared to the three months ended September 30, 2016. This increase was primarily on account of the increase in sales volume of existing products along with new products launched between October 1, 2016 and September 30, 2017.

#### **Pharmaceutical Services and Active Ingredients (“PSAI”)**

Our PSAI segment’s revenues for the three months ended September 30, 2017 were Rs.5,654 million, a decrease of 2% as compared to the three months ended September 30, 2016. 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:

- increased sales of active pharmaceutical ingredients for the three months ended September 30, 2017, primarily attributable to increased sales volumes of existing products, which increased our PSAI segment’s revenues by approximately 2%; and
- the foregoing was offset by decreased customer orders for our pharmaceutical development services, which decreased our PSAI segment’s revenues by approximately 4%.

During the three months ended September 30, 2017, we filed 16 Drug Master Files (“DMFs”) worldwide. Cumulatively, our total worldwide DMFs as of September 30, 2017, were 780, including 203 DMFs in the United States.

#### **Gross Profit**

Our total gross profit was Rs.18,901 million for the three months ended September 30, 2017, representing 53.3% of our revenues for that period, as compared to Rs.20,097 million for the three months ended September 30, 2016, representing 56.0% 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 September 30,			
	2017		2016	
	(Rs. in millions)			
	Gross Profit	% of Segment Revenue	Gross Profit	% of Segment Revenue
Global Generics	Rs. 16,936	59.2%	Rs. 18,067	62.3%
Pharmaceutical Services and Active Ingredients	1,107	19.6%	1,271	22.0%
Proprietary Products	633	84.5%	507	86.3%
Others	225	51.1%	252	51.5%
<b>Total</b>	<b>Rs. 18,901</b>	<b>53.3%</b>	<b>Rs. 20,097</b>	<b>56.0%</b>

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 59.2% for the three months ended September 30, 2017 from 62.3% for the three months ended September 30, 2016. This decrease was primarily on account of lower realizations due to increased competition in some of our key products, primarily in North America. Consequently, there was a decrease in the proportion of our sales of higher gross margin products and an increase in the proportion of our sales of lower gross margin products.

The gross profits from our PSAI segment decreased to 19.6% for the three months ended September 30, 2017, from 22.0% for the three months ended September 30, 2016. This decrease was primarily on account of increased price erosion coupled with a decrease in the proportion of our sales of higher gross margin products and an increase in the proportion of our sales of lower gross margin products during the three months ended September 30, 2017.

#### Selling, general and administrative expenses

Our selling, general and administrative expenses were Rs.11,032 million for the three months ended September 30, 2017, a decrease of 6% as compared to Rs.11,774 million for the three months ended September 30, 2016. 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 legal and professional expenses, which decreased our selling, general and administrative expenses by approximately 2%; and
- decreased sales and marketing expenses, which decreased our selling, general and administrative expenses by approximately 4%. This decrease was primarily on account of the provision of Rs.344 million for potential liability imposed by the National Pharmaceutical Pricing Authority for sales allegedly in excess of the notified selling prices (related to the petition filed by the Indian Pharmaceutical Alliance) accrued during the three months ended September 30, 2016; no such costs were accrued during the three months ended September 30, 2017.

As a proportion of our total revenues, our selling, general and administrative expenses decreased to 31.1% for the three months ended September 30, 2017 from 32.8% for the three months ended September 30, 2016.

#### Research and development expenses

Our research and development expenses were Rs.4,175 million for the three months ended September 30, 2017, a decrease of 20% as compared to Rs.5,214 million for the three months ended September 30, 2016. The decrease was primarily on account of deferrals in certain milestone related payments to subsequent quarters of the year ending March 31, 2018. Our focus continues on building our pipeline of complex generics, biosimilars and differentiated products.

As a proportion of our total revenues, our research and development expenses decreased to 11.8% for the three months ended September 30, 2017 from 14.5% for the three months ended September 30, 2016.

#### Other (income)/expense, net

Our net other income was Rs.114 million for the three months ended September 30, 2017, as compared to net other income of Rs.277 million for the three months ended September 30, 2016.

**Finance (expense)/income, net**

Our net finance expense was Rs.24 million for the three months ended September 30, 2017, as compared to net finance income of Rs.365 million for the three months ended September 30, 2016. The decrease in net finance income was due to the following:

- net interest expense of Rs.159 million for the three months ended September 30, 2017, as compared to net interest expense of Rs.49 million for the three months ended September 30, 2016;
- net foreign exchange gain of Rs.47 million for the three months ended September 30, 2017, as compared to net foreign exchange gain of Rs.37 million for the three months ended September 30, 2016; and
- profit on sale of investments of Rs.88 million for the three months ended September 30, 2017, as compared to profit on sale of investments of Rs.377 million for the three months ended September 30, 2016.

**Profit before tax**

As a result of the above, our profit before tax was Rs.3,876 million for the three months ended September 30, 2017, an increase of 1% as compared to Rs.3,835 million for the three months ended September 30, 2016.

**Tax expense**

Our consolidated weighted average tax rate was 26.5% for the three months ended September 30, 2017, as compared to 23.1% for the three months ended September 30, 2016. The effective rate of tax for the three months ended September 30, 2016 was lower primarily on account of tax deductions that we claimed on sales of investments.

Our tax expense was Rs.1,027 million for the three months ended September 30, 2017, as compared to Rs.885 million for the three months ended September 30, 2016.

**Profit for the period**

As a result of the above, our net profit was Rs.2,849 million for the three months ended September 30, 2017, representing 8.0% of our total revenues for such period, as compared to Rs.2,950 million for the three months ended September 30, 2016, representing 8.2% of our total revenues for such period.

**Section B:**

**Six months ended September 30, 2017 compared to the six months ended September 30, 2016**

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 six months ended September 30,						Increase/ (Decrease)
	2017			2016			
	Rs. in millions	% of Revenues		Rs. in millions	% of Revenues		
<b>Revenues</b>	<b>Rs. 68,619</b>	<b>100.0%</b>		<b>Rs. 68,202</b>	<b>100.0%</b>		<b>1%</b>
<b>Gross profit</b>	<b>35,998</b>	<b>52.5%</b>		<b>38,275</b>	<b>56.1%</b>		<b>(6)%</b>
Selling, general and administrative expenses	22,795	33.2%		24,058	35.3%		(5)%
Research and development expenses	9,250	13.5%		10,016	14.7%		(8)%
Other (income) / expense, net	(308)	(0.4)%		(373)	(0.5)%		(17)%
<b>Results from operating activities</b>	<b>4,261</b>	<b>6.2%</b>		<b>4,574</b>	<b>6.7%</b>		<b>(7)%</b>
Finance (expense) / income, net	197	0.3%		810	1.2%		(76)%
Share of profit of equity accounted investees, net of tax	190	0.3%		158	0.2%		20%
<b>Profit before tax</b>	<b>4,648</b>	<b>6.8%</b>		<b>5,542</b>	<b>8.1%</b>		<b>(16)%</b>
Tax expense	1,208	1.8%		1,329	1.9%		(9)%
<b>Profit for the period</b>	<b>Rs. 3,440</b>	<b>5.0%</b>		<b>Rs. 4,213</b>	<b>6.2%</b>		<b>(18)%</b>

**Revenues**

Our overall consolidated revenues were Rs.68,619 million for the six months ended September 30, 2017, an increase of 1% as compared to Rs.68,202 million for the six months ended September 30, 2016.

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

	For the six months ended September 30,						Increase/ (Decrease)
	2017			2016			
	Rs. in millions	Revenues % of Total		Rs. in millions	Revenues % of Total		
Global Generics	Rs. 56,073	82%		Rs. 55,633	82%		1%
Pharmaceutical Services and Active Ingredients	10,305	15%		10,477	15%		(2)%
Proprietary Products	1,260	2%		1,208	2%		4%
Others	981	1%		884	1%		11%
<b>Total</b>	<b>Rs. 68,619</b>	<b>100%</b>		<b>Rs. 68,202</b>	<b>100%</b>		<b>1%</b>



## Segment Analysis

### Global Generics

Revenues from our Global Generics segment were Rs.56,073 million for the six months ended September 30, 2017, an increase of 1% as compared to Rs.55,633 million for the six months ended September 30, 2016.

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 increase in revenues of this segment was attributable to the following factors:

- a decrease of approximately 10% resulting from the net impact of changes in sales prices of the products in this segment;
- an increase of approximately 10% resulting from the introduction of new products during the intervening period and
- an increase of approximately 1% resulting from a net increase in the sales volume of existing products in this segment.

*North America (the United States and Canada):* Our Global Generics segment's revenues from North America (the United States and Canada) for the six months ended September 30, 2017 were Rs.29,262 million, a decrease of 8% as compared to the six months ended September 30, 2016. 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 7% in the six months ended September 30, 2017 as compared to the six months ended September 30, 2016.

During the six months ended September 30, 2017, we launched eight new products in North America (the United States and Canada). These new products include ezetimibe and simvastatin, liposomal doxorubicin, bivalirudin injection, sevelamer carbonate tablets, cefixime OS (oral suspension), bupropion XL (extended release) and metaxalone tablets. No revenues were recorded from sevelamer carbonate tablets, as this product was launched towards the end of September 2017.

*India:* Our Global Generics segment's revenues from India were Rs.11,058 million for the six months ended September 30, 2017, a decrease of 4% as compared to the six months ended September 30, 2016. During the six months ended September 30, 2017, we launched 11 new brands in India.

During the three months ended June 30, 2017, there was a significant reduction in the sales volumes of our existing products, as our customers in India reduced their inventory holdings in anticipation of the transition to India's new Goods and Service Tax ("GST") regime, which became effective on July 1, 2017.

Prior to the transition to the GST regime, excise duty amount was recorded in revenues with a corresponding amount recorded in the cost of revenues. For subsequent periods, excise duty has been subsumed in the GST, and is not recorded in revenues or cost of revenues. Consequently, the revenues reported for periods subsequent to the GST transition no longer reflect excise duty, and the reported growth would therefore be lower.

*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) for the six months ended September 30, 2017 were Rs.11,253 million, an increase of 24% as compared to the six months ended September 30, 2016.

*Russia:* Our Global Generics segment's revenues from Russia were Rs.6,679 million for the six months ended September 30, 2017, an increase of 33% as compared to the six months ended September 30, 2016. In Russian rouble absolute currency terms (i.e., Russian roubles without taking into account the effect of currency exchange rates), such revenues increased by 21% for the six months ended September 30, 2017 as compared to the six months ended September 30, 2016. Our over-the-counter ("OTC") division's revenues from Russia for the six months ended September 30, 2017 were 37% of our total revenues from Russia, and we intend to further strengthen our OTC sales by continuous branding efforts.

According to IMS Health, as per its report for the six months ended September 30, 2017, 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 for the six months ended September 30, 2017 was as follows:

	For the six months ended September 30, 2017			
	Dr. Reddy's Laboratories		Russian pharmaceutical market	
	Sales value	Volume	Sales value	Volume
Prescription (Rx)	(5.31)%	(6.69)%	4.11%	(1.63)%
Over-the-counter (OTC)	2.51%	(0.03)%	(0.55)%	(5.47)%
Total (Rx + OTC)	(2.43)%	(4.90)%	1.62%	(4.36)%

*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.1,782 million for the six months ended September 30, 2017, an increase of 13% as compared to the six months ended September 30, 2016.

*"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.2,791 million for the six months ended September 30, 2017, an increase of 11% as compared to the six months ended September 30, 2016. This increase is majorly attributable towards increase in sales in new markets for the six months ended September 30, 2017.

*Europe:* Our Global Generics segment's revenues from Europe were Rs.4,500 million for the six months ended September 30, 2017, an increase of 33% as compared to the six months ended September 30, 2016. The increase is largely attributable to sales of new products, such as entacavir, sildenafil and tenofovir, launched between October 1, 2016 and September 30, 2017.

#### **Pharmaceutical Services and Active Ingredients ("PSAI")**

Our PSAI segment's revenues for the six months ended September 30, 2017 were Rs.10,305 million, a decrease of 2% as compared to the six months ended September 30, 2016. 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:

- increased sales of active pharmaceutical ingredients for the six months ended September 30, 2017, primarily attributable to increased sales volumes of existing products, partially offset by net impact of changes in sales prices of existing products, which together increased our PSAI segment's revenues by approximately 1%; and
- the foregoing was offset by decreased customer orders in our pharmaceutical development services for certain products provided to innovator companies, which decreased our PSAI segment's revenues by approximately 3%.

#### **Gross Profit**

Our total gross profit was Rs.35,998 million for the six months ended September 30, 2017, representing 52.5% of our revenues for that period, as compared to Rs.38,275 million for the six months ended September 30, 2016, representing 56.1% of our revenues for that period.

	<b>For the six months ended September 30,</b>			
	<b>2017</b>		<b>2016</b>	
	<b>Rs. in millions</b>			
	<b>Gross Profit</b>	<b>% of Segment Revenue</b>	<b>Gross Profit</b>	<b>% of Segment Revenue</b>
Global Generics	Rs. 32,772	58.4%	Rs. 34,406	61.8%
Pharmaceutical Services and Active Ingredients	1,640	15.9%	2,402	22.9%
Proprietary Products	1,051	83.4%	1,032	85.4%
Others	535	54.5%	435	49.2%
<b>Total</b>	<b>Rs. 35,998</b>	<b>52.5%</b>	<b>Rs. 38,275</b>	<b>56.1%</b>

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 58.4% for the six months ended September 30, 2017 from 61.8% for the six months ended September 30, 2016. This decrease was primarily on account of lower realizations due to increased competition in some of our key products. 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 decreased to 15.9% for the six months ended September 30, 2017, from 22.9% for the six months ended September 30, 2016. This decrease was primarily on account of price erosion for the six months ended September 30, 2017.

### **Selling, general and administrative expenses**

Our selling, general and administrative expenses were Rs.22,795 million for the six months ended September 30, 2017, a decrease of 5% as compared to Rs.24,058 million for the six months ended September 30, 2016. 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 sales and marketing expenses, which decreased our selling, general and administrative expenses by approximately 2%. This decrease was primarily on account of the provision of Rs.344 million for potential liability imposed by the National Pharmaceutical Pricing Authority for sales allegedly in excess of the notified selling prices (related to the petition filed by the Indian Pharmaceutical Alliance) accrued for the six months ended September 30, 2016; no such costs were incurred for the six months ended September 30, 2017; and
- decreased legal and professional expenses by 3%, primarily on account of remediation activities related to the warning letter received from the U.S. FDA for three of our manufacturing facilities in India accrued for the six months ended September 30, 2016; no such costs were incurred for the six months ended September 30, 2017.

As a proportion of our total revenues, our selling, general and administrative expenses decreased to 33.2% for the six months ended September 30, 2017 from 35.3% for the six months ended September 30, 2016.

### **Research and development expenses**

Our research and development costs were Rs.9,250 million for the six months ended September 30, 2017, a decrease of 8% as compared to Rs.10,016 million for the six months ended September 30, 2016. The decrease was primarily on account of deferment in some of the milestone related payments to subsequent quarters of the financial year. Our focus continues on building our pipeline of complex generics, biosimilars and differentiated products.

### **Other (income) / expense, net**

Our other income was Rs.308 million for the six months ended September 30, 2017, as compared to other income of Rs.373 million for the six months ended September 30, 2016.

### **Finance (expense) / income, net**

Our net finance income was Rs.197 million for the six months ended September 30, 2017, as compared to net finance income of Rs.810 million for the six months ended September 30, 2016. The decrease in net finance income was attributable to:

- net interest expense of Rs.231 million for the six months ended September 30, 2017, as compared to net interest income of Rs.74 million for the six months ended September 30, 2016;
- net foreign exchange gain of Rs.57 million for the six months ended September 30, 2017, as compared to net foreign exchange gain of Rs.73 million for the six months ended September 30, 2016; and
- profit on sale of investments of Rs.371 million for the six months ended September 30, 2017, as compared to profit on sale of investments of Rs.663 million for the six months ended September 30, 2016.

### **Profit before tax**

As a result of the above, our profit before tax was Rs.4,648 million for the six months ended September 30, 2017, a decrease of 16% as compared to Rs.5,542 million for the six months ended September 30, 2016.

### **Tax expense**

Our consolidated weighted average tax rate was 25.9% for the six months ended September 30, 2017, as compared to 23.9% for the six months ended September 30, 2016.

Our tax expense was Rs.1,208 million for the six months ended September 30, 2017, as compared to Rs.1,329 million for the six months ended September 30, 2016.

### **Profit for the period**

As a result of the above, our net profit was Rs.3,440 million for the six months ended September 30, 2017, representing 5.0% of our total revenues for such period, as compared to Rs.4,213 million for the six months ended September 30, 2016, representing 6.2% of our total revenues for such period.

### 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 making investments, the purchase of property, plant and equipment, 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. We 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 12 to our interim financial statements for further details). These loans were incurred 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, through Dr. Reddy's Laboratories, SA, one of our subsidiaries in Switzerland (the "Swiss Subsidiary"), we borrowed U.S.\$350 million of short-term borrowings from certain institutional lenders at an interest rate ranging from Libor plus 0.45% to 0.60% per annum. These loans were borrowed for the purpose of funding the acquisition of eight Abbreviated New Drug Applications ("ANDAs") from Teva Pharmaceutical Industries Limited in the United States (refer to Note 27 of these interim financial statements for additional details). During the three months ended June 30, 2017, the Swiss Subsidiary repaid the entire short-term borrowing of U.S.\$350 million.

During the three months ended June 30, 2017, through our Swiss Subsidiary, we borrowed an additional U.S.\$250 million, of which U.S.\$200 million is required to be repaid in one balloon installment due on the 60 month anniversary of the date of the loan, and the remaining U.S.\$50 million is repayable in five equal quarterly installments of U.S.\$10 million each, commencing at the end of the 30 month anniversary and continuing until the 42 month anniversary of the date of the loan.

During the three months ended June 30, 2017, through Reddy Holding GmbH, one of our subsidiaries in Germany, we borrowed EUR 42 million, which was required to be repaid in three equal installments due at the end of the 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> year anniversaries of the date of the loan.

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

	<b>For the six months ended September 30,</b>					
	<b>2017</b>		<b>2017</b>		<b>2016</b>	
	(U.S.\$ in millions, Rs. in millions)					
	<i>Convenience translation into U.S.\$.</i>					
Net cash from/(used in):						
Operating activities	U.S.\$	72	Rs.	4,728	Rs.	7,763
Investing activities		(84)		(5,456)		(17,292)
Financing activities		(10)		(646)		7,224
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>U.S.\$</b>	<b>(21)</b>	<b>Rs.</b>	<b>(1,374)</b>	<b>Rs.</b>	<b>(2,305)</b>

In addition to cash, inventory and accounts receivable, our unused sources of liquidity included Rs.21,300 million available in credit under revolving credit facilities with banks as of September 30, 2017. We had no other material unused sources of liquidity as of September 30, 2017.

#### *Cash Flows from Operating Activities*

The result of operating activities was a net cash inflow of Rs.4,728 million for the six months ended September 30, 2017, as compared to a cash inflow of Rs.7,763 million for the six months ended September 30, 2016.

The decrease in net cash inflow of Rs. 3,035 million is primarily due to increase in working capital requirements and decrease in our earnings, as described below.

The change in cash from operating activities was primarily on account of the following:

- an increase in working capital, primarily due to an increase in our trade receivables as of September 30, 2017, on account of (a) changes in the customer mix (i.e., an increase in the proportion of receivables from our customers with longer credit periods, as further discussed below); and (b) an increase in the proportion of trade receivables in our API business which were not due for payment as of September 30, 2017; and
- a decline in our earnings for the six months ended September 30, 2017, due to increased competition for key products in our North America (the United States and Canada) generics business and increased price erosion attributable to consolidation among distributors and retailers.

Our average days' sales outstanding ("DSO") as at September 30, 2017, March 31, 2017 and September 30, 2016, computed based on the sales for the three months then ended, were 109 days, 96 days and 95 days, respectively. The increase in our DSO was primarily on account of (a) changes in the mix of our receivables, due to increase in the proportion of receivables from our customers with longer credit periods in the United States; and (b) higher exchange rates as of September 30, 2017 as compared to the exchange rates prevailing during the three months ended September 30, 2017, which increased our trade receivables higher than the corresponding revenues.

#### *Cash Flows from Investing Activities*

Our investing activities resulted in a net cash outflow of Rs.5,456 million as compared to a net cash outflow of Rs.17,292 million for the six months ended September 30, 2017 and 2016, respectively. This decrease in net cash outflow of Rs.11,899 million was primarily due to:

- a net decrease of Rs.28,478 million in cash outflow is primarily on account of reduced outflow towards acquisition of intangible assets and property, plant and equipment in the six months ended September 30, 2017 as compared to the six months ended September 30, 2016. Acquisition during the six months ended September 30, 2016 primarily consist of:
  - o Rs.23,366 million (U.S.\$350 million) paid to Teva Pharmaceutical Industries Limited ("Teva") to acquire eight Abbreviated New Drug Applications ("ANDAs") in the United States forming part of our Global Generics segment (refer to Note 27 of these interim financial statements for further details);
  - o 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 three months ended June 30, 2016 (refer to Note 27 of these interim financial statements for further details); and
  - o Rs.1,148 million (U.S.\$17 million) paid to Ducere Pharma LLC for purchase of portfolio of OTC brands which form a part of our Global Generics segment during the three months ended June 30, 2016 (refer to Note 27 of these interim financial statements for further details).
- the foregoing was partially offset by a decrease in net cash inflow on account of sale of investments in mutual funds and redemption of fixed deposits having an original maturity of more than three months by Rs.16,513 million for the six months ended September 30, 2017, as compared to the six months ended September 30, 2016.

#### *Cash Flows from Financing Activities*

Our financing activities resulted in a net cash outflow of Rs.646 million, as compared to a net cash inflow of Rs.7,224 million for the six months ended September 30, 2017 and 2016, respectively.

During the six months ended September 30, 2017, there was a decrease in net short-term borrowings by Rs.14,961 million, primarily on account of repayment of Rs.23,222 million by our Swiss Subsidiary, which was offset by an increase in short term borrowings of Rs.18,991 million incurred by our subsidiaries in Switzerland and Germany.

During the three months ended June 30, 2016, we bought back and extinguished 5,077,504 equity shares for an aggregate purchase price of Rs.15,694 million (refer to note 15 of these interim financial statements for further details).

**Principal Debt Obligations**

The following table provides a list of our principal debt obligations (excluding finance lease obligations) outstanding as of September 30, 2017:

Debt	Principal Amount		Currency <sup>(1)</sup>		Interest Rate
	(U.S.\$ in millions, Rs. in millions)				
	<i>Convenience translation into U.S.\$</i>				
Packing credit borrowings (short-term)	U.S.\$	349	Rs.	22,822	USD INR INR RUB LIBOR + (30) to 0 bps T-Bill + 30 bps 6.00% 9.50%
Other short-term borrowings		88		5,757	USD RUB UAH LIBOR + 75 to 85 bps 9.43% 11.70% to 14.00%
Long-term borrowings		372		24,324	USD EUR LIBOR + 45 to 82.7 bps 0.81%

<sup>(1)</sup> “INR” means Indian rupees, “RUB” means Russian roubles, and “UAH” means Ukrainian hryvnia.

#### 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. We have responded to all of the Texas AG's requests to date, 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 have been cooperating, and 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.

##### *State Attorneys General Civil Actions in the United States*

On December 18, 2016, the Attorneys General for 19 states filed claims in the United States District Court for the District of Connecticut against a number of pharmaceutical companies alleging conspiracies to fix prices and to allocate bids and customers from 2013 through at least 2016, with respect to two generic drugs for which our Company and our U.S. subsidiaries were not named as defendants.

In April 2017, a total of 45 states, plus the District of Columbia and the Commonwealth of Puerto Rico, joined as plaintiffs in this case (the "State AG Action"). In August 2017, the State AG Action was transferred and consolidated with the private plaintiff class actions pending in the multi-district litigation (MDL-2724) in the United States District Court for the Eastern District of Pennsylvania. On October 31, 2017, the Attorneys General for the 45 States, plus the District of Columbia and the Commonwealth of Puerto Rico, filed an Amended Complaint in the State AG Action in MDL-2724 which has added our U.S. subsidiary as a defendant. The State AG Action alleges that our subsidiary and other named defendants engaged in a conspiracy to fix prices and to allocate bids and customers in the sale of generic zoledronic acid and meprobamate in the United States, and alleges an over-arching conspiracy with the defendants on the other 13 drugs named in the State AG Amended Complaint. The State AG Amended Complaint alleges violations of Section 1 of the Sherman Act, 15 U.S.C. §1, and the consumer and antitrust laws of 45 states, the District of Columbia and the Commonwealth of Puerto Rico, seeking injunctive relief, recovery of treble damages, attorney's fees and other costs. We deny any wrongdoing and intend to vigorously defend against these claims.

**ITEM 5. EXHIBITS**

<u>Exhibit Number</u>	<u>Description of Exhibits</u>
<a href="#"><u>99.1</u></a>	<a href="#"><u>Report of Independent Registered Public Accounting Firm</u></a>



**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: November 8, 2017

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

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders  
Dr. Reddy's Laboratories Limited:

We have reviewed the condensed consolidated interim statements of financial position of Dr. Reddy's Laboratories Limited and its subsidiaries ("the Company") as of September 30, 2017, and the related condensed consolidated interim income statements, the statements of comprehensive income for the three and six months periods ended September 30, 2017 and 2016, the statements of changes in equity and cash flows for the six months periods ended September 30, 2017 and 2016 and the summary of significant accounting policies and other explanatory notes. These condensed consolidated interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated interim financial statements referred to above for them to be in conformity with International Financial Reporting Standards as issued by International Accounting Standards Board.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of the Company as of March 31, 2017, and the related consolidated income statements, statements of comprehensive income, changes in equity and cash flows for the year then ended; and in our report dated June 19, 2017, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statements of financial position as of March 31, 2017, is fairly stated, in all material respects, in relation to the consolidated statements of financial position from which it has been derived.

KPMG

Hyderabad, India

November 8, 2017