

DR REDDYS LABORATORIES LTD

Form 6-K

November 13, 2006

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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 Three Months Ended June 30, 2006
Commission File Number 1-15182
DR. REDDY S LABORATORIES LIMITED
(Translation of registrant's name into English)
7-1-27, Ameerpet
Hyderabad, Andhra Pradesh 500 016, India
+91-40-23731946

(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
Three Months Ended June 30, 2006**

Currency of Presentation and Certain Defined Terms

In this Quarterly Report, references to \$ or dollars or U.S.\$ or U.S. dollars are to the legal currency of the United States and references to Rs. or rupees or Indian rupees are to the legal currency of India. Our financial statements are presented in Indian rupees and are prepared in accordance with United States Generally Accepted Accounting Principles (U.S. GAAP). Convenience translation into U.S. dollars with respect to the unaudited interim condensed consolidated financial statements is also presented. References to a particular fiscal year are to our fiscal year ended March 31 of such year. References to ADS are to our American Depository Shares, to the FASB are to the Financial Accounting Standards Board, to SFAS are to the Statements of Financial Accounting Standards, to SAB are to Staff Accounting Bulletin and to the EITF are to the Emerging Issues Task Force.

References to U.S. or United States are to the United States of America, its territories and its possessions. References to India are to the Republic of India. All references to we, us, our, DRL, Dr. Reddy s or the Com 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.

Except as otherwise stated in this report, all translations from Indian rupees to U.S. dollars are based on the noon buying rate in the City of New York on June 30, 2006 for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York, which was Rs.45.87 per U.S.\$1.00. No representation is made that the Indian rupee amounts have been, could have been or could be converted into U.S. dollars at such a rate or any other rate. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

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

Forward-Looking and Cautionary Statement

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

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

| | As of March 31, 2006 | As of June 30, 2006 | Convenience translation into U.S.\$ |
|--|----------------------------|------------------------|---|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | Rs. 3,712,637 | Rs. 3,437,251 | U.S.\$74,935 |
| Investment securities | 14,703 | 14,886 | 325 |
| Restricted cash | 1,606,245 | 21,894 | 477 |
| Accounts receivable, net of allowances | 4,801,794 | 9,650,933 | 210,397 |
| Inventories | 6,894,712 | 8,785,740 | 191,536 |
| Deferred income taxes and deferred charges | 173,750 | 351,097 | 7,654 |
| Due from related parties | 246,360 | 353,852 | 7,714 |
| Other current assets | 2,639,818 | 2,968,523 | 64,716 |
| Total current assets | 20,090,019 | 25,584,176 | 557,754 |
| Property, plant and equipment, net | 9,086,331 | 9,738,939 | 212,316 |
| Due from related parties | 6,182 | 5,612 | 122 |
| Investment securities | 1,090,202 | 1,087,890 | 23,717 |
| Goodwill | 16,634,509 | 17,903,853 | 390,317 |
| Intangibles assets, net | 17,034,555 | 18,203,086 | 396,841 |
| Restricted cash | 4,468,840 | 4,468,840 | 97,424 |
| Other assets | 357,431 | 500,094 | 10,902 |
| Total assets | Rs. 68,768,069 | Rs. 77,492,490 | U.S.\$1,689,394 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | | |
| Current liabilities: | | | |
| Borrowings from banks | 9,132,462 | 9,590,060 | 209,070 |
| Current portion of long-term debt | 925,761 | 1,973,233 | 43,018 |
| Trade accounts payable | 3,639,217 | 7,721,213 | 168,328 |
| Due to related parties | 151,678 | 147,593 | 3,218 |
| Accrued expenses | 3,083,120 | 3,200,755 | 69,779 |
| Other current liabilities | 1,812,623 | 1,972,951 | 43,012 |
| Total current liabilities | 18,744,861 | 24,605,805 | 536,425 |
| Long-term debt, excluding current portion | 20,937,132 | 21,724,915 | 473,619 |
| Deferred income taxes | 6,346,174 | 6,764,538 | 147,472 |
| Other liabilities | 468,169 | 350,428 | 7,640 |

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| | | | |
|---|----------------|----------------|-----------------|
| Total liabilities | Rs. 46,496,336 | Rs. 53,445,686 | U.S.\$1,165,156 |
| Stockholders equity: | | | |
| Equity shares at Rs.5 par value: 200,000,000 shares authorized; Issued and outstanding: 153,389,140 shares and 153,404,506 shares as of March 31, 2006 and June 30, 2006 respectively | 383,473 | 383,511 | 8,361 |
| Additional paid-in capital | 10,261,783 | 10,267,212 | 223,833 |
| Equity options outstanding | 463,128 | 473,927 | 10,332 |
| Retained earnings | 11,201,794 | 12,599,406 | 274,676 |
| Equity shares held by a controlled trust: 82,800 shares | (4,882) | (4,882) | (106) |
| Accumulated other comprehensive income | (33,563) | 327,630 | 7,143 |
| Total stockholders equity | 22,271,733 | 24,046,804 | 524,238 |
| Total liabilities and stockholders equity | Rs. 68,768,069 | Rs. 77,492,490 | U.S.\$1,689,394 |

See accompanying notes to the unaudited condensed consolidated financial statements.

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)

| | Three months ended June 30, | | |
|--|-----------------------------|----------------|---|
| | 2005 | 2006 | 2006 Convenience translation into U.S.\$ |
| Revenues: | | | |
| Product sales, net of allowances for sales returns (includes excise duties of Rs.300,124 and Rs.648,459 for the three months ended June 30, 2005 and 2006 respectively) | Rs. 5,573,819 | Rs. 13,918,192 | U.S.\$303,427 |
| License fees | 13,383 | 23,016 | 502 |
| Service income | 4,232 | 108,198 | 2,359 |
| | 5,591,434 | 14,049,406 | 306,287 |
| Cost of revenues | 2,662,865 | 7,960,457 | 173,544 |
| Gross profit | 2,928,569 | 6,088,949 | 132,744 |
| Operating expenses: | | | |
| Selling, general and administrative expenses | 1,953,773 | 3,346,121 | 72,948 |
| Research and development expenses, net | 514,694 | 532,874 | 11,617 |
| Amortization expenses | 95,599 | 387,809 | 8,455 |
| Foreign exchange loss | 65,756 | 74,474 | 1,624 |
| Other operating (income)/expenses, net | 36,913 | (69,534) | (1,516) |
| Total operating expenses | 2,666,735 | 4,271,744 | 93,127 |
| Operating income | 261,834 | 1,817,205 | 39,616 |
| Equity in loss of affiliates | (14,504) | (15,345) | (335) |
| Other (expense)/income, net | 172,602 | (196,658) | (4,287) |
| Income before income taxes and minority interest | 419,932 | 1,605,202 | 34,995 |
| Income taxes | (72,507) | (207,540) | (4,525) |
| Minority interest | (108) | (50) | (1) |
| Net income | Rs. 347,317 | Rs. 1,397,612 | U.S.\$30,469 |
| Earnings per equity share | | | |
| Basic | Rs. 2.27 | Rs. 9.11 | U.S.\$0.20 |
| Diluted | Rs. 2.27 | Rs. 9.07 | U.S.\$0.20 |
| Weighted average number of equity shares used in computing earnings per equity share | | | |
| Basic | 153,065,150 | 153,397,582 | 153,397,582 |
| Diluted | 153,324,350 | 154,023,870 | 154,023,870 |

See accompanying notes to the unaudited condensed consolidated financial statements.

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND
COMPREHENSIVE INCOME

(in thousands, except share and per share data)

| Equity Shares | Equity Shares | | Additional | | Accumulated | | Equity Shares held by | | Equity Options Outstanding | Retained Earnings |
|---------------|---------------|----------------|-----------------|----------------------------|----------------------------|---------------|-----------------------|------------------|----------------------------|-------------------|
| | No. of Shares | Amount | Paid In Capital | Other Comprehensive Income | Other Comprehensive Income | No. of Shares | Amount | Controlled Trust | | |
| 37,898 | Rs. 382,595 | Rs. 10,089,152 | Rs. 76,240 | | | 82,800 | Rs. (4,882) | Rs. 400,749 | Rs. 10,009,3 | |
| 40,000 | 100 | 14,471 | | | | | | (14,471) | | |
| | | | | | | | | 43,390 | | |
| | | | | | | | | | Rs. 347,317 | 347,3 |
| | | | | | | | | | (19,550) | (19,550) |
| | | | | | | | | | 11,358 | 11,358 |
| | | | | | | | | | Rs. 339,125 | |
| 77,898 | Rs. 382,695 | Rs. 10,103,623 | Rs. 68,048 | | | 82,800 | Rs. (4,882) | Rs. 429,668 | Rs. 10,356,6 | |
| 89,140 | Rs. 383,473 | Rs. 10,261,783 | Rs. (33,563) | | | 82,800 | Rs. (4,882) | Rs. 463,128 | Rs. 11,201,7 | |
| 15,366 | 38 | 5,429 | | | | | | (5,429) | | |
| | | | | | | | | 31,034 | | |
| | | | | | | | | (14,806) | | |

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

| | Three months ended June 30, | | |
|--|------------------------------------|---------------|--|
| | 2005 | 2006 | 2006 |
| | | | Convenience translation into U.S.\$ |
| Cash flows from operating activities: | | | |
| Net income | Rs. 347,317 | Rs. 1,397,612 | U.S.\$30,469 |
| Adjustments to reconcile net income to net cash from operating activities: | | | |
| Deferred tax expense/(benefit) | 72,507 | (245,519) | (5,352) |
| Gain on sale of available for sale securities, net | (13,164) | | |
| Depreciation and amortization | 369,692 | 729,995 | 15,914 |
| Loss/(profit) on sale of property, plant and equipment | 36,913 | (62,615) | (1,365) |
| Equity in loss of affiliates | 14,504 | 15,345 | 335 |
| Unrealized exchange (gain)/loss | 51,018 | 497,652 | 10,849 |
| Interest receivable on investment | (4,937) | | |
| Stock based compensation | 43,390 | 16,228 | 354 |
| Minority interest | 108 | 50 | 1 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (421,178) | (4,648,504) | (101,341) |
| Inventories | (192,687) | (1,790,729) | (39,039) |
| Other assets | (259,031) | (278,765) | (6,077) |
| Due to/from related parties, net | (68,604) | (111,010) | (2,420) |
| Trade accounts payable | 492,604 | 3,768,859 | 82,164 |
| Accrued expenses | 95,279 | 60,899 | 1,328 |
| Other liabilities | (361,562) | (106,570) | (2,323) |
| Net cash provided by/(used in) operating activities | 202,169 | (757,072) | (16,505) |
| Cash flows from investing activities: | | | |
| Restricted cash | | 1,584,351 | 34,540 |
| Expenditure on property, plant and equipment | (297,828) | (887,280) | (19,343) |
| Proceeds from sale of property, plant and equipment | 3,062 | 65,730 | 1,433 |
| Purchase of investment securities, net of proceeds from sale | 161,320 | (84,361) | (1,839) |
| Expenditure on intangible assets | (90,814) | (195,611) | (4,264) |
| Net cash provided by/(used in) in investing activities | (224,260) | 482,829 | 10,526 |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of equity shares on exercise of options | | 38 | 1 |

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| | | | |
|--|----------------|---------------|--------------|
| Proceeds from borrowing from banks, net | 1,135,649 | 291,428 | 6,353 |
| Repayment of long-term debt | (1,480) | (1,572) | (34) |
| Net cash provided by financing activities | 1,134,169 | 289,894 | 6,320 |
| Effect of exchange rate changes on cash and cash equivalents | (35,993) | (291,037) | (6,345) |
| Net increase / (decrease) in cash and cash equivalents during the period | 1,076,085 | (275,386) | (6,004) |
| Cash and cash equivalents at the beginning of the period | 9,287,864 | 3,712,637 | 80,938 |
| Cash and cash equivalents at the end of the period | Rs. 10,363,949 | Rs. 3,437,251 | U.S.\$74,935 |

See accompanying notes to the unaudited condensed consolidated financial statements

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

| | Three months ended June 30, | | |
|---|---|-------------|---|
| | 2005 | 2006 | 2006 Convenience translation into U.S.\$ |
| Supplemental disclosures: | | | |
| Cash paid for: | | | |
| Interest | Rs. 98,337 | Rs. 401,678 | U.S.\$8,757 |
| Income taxes | | 111,382 | 2,428 |
| Supplemental schedule of non-cash investing activities: | | | |
| Property, plant and equipment purchased on credit during the period | 8,012 | 71,095 | 1,550 |
| | See accompanying notes to the unaudited condensed consolidated financial statements | | |

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

1. Basis of preparation of financial statements

The accompanying unaudited interim condensed consolidated financial statements of Dr Reddy s Laboratories Limited (the Company or DRL), have been prepared by management on substantially the same basis as the audited financial statements for the year ended March 31, 2006, and in the opinion of management, include all adjustments of normal recurring nature necessary for a fair presentation of the financial information set forth herein. The preparation of unaudited interim condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

2. Interim information

The accompanying unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes contained in the Annual Report on Form 20-F for the year ended March 31, 2006. The results of the interim periods are not necessarily indicative of results to be expected for the full fiscal year.

3. Convenience translation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in Indian rupees. Solely for the convenience of the reader, the financial statements as of June 30, 2006 have been translated into U.S. dollars at the noon buying rate in New York City on June 30, 2006 for cable transfers in Indian rupees, as certified for customs purposes by the Federal Reserve Bank of New York of U.S.\$1 = Rs.45.87. 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.

4. Stock based compensation

Prior to April 1, 2006, the Company accounted for its stock-based compensation plans under SFAS 123 Accounting for Stock Based Compensation . On April 1, 2006, the Company adopted SFAS No. 123R (revised 2004) Share Based Payment (SFAS No. 123(R)) under the modified-prospective application. Under the modified-prospective-application, SFAS No. 123(R) applies to new awards and to awards modified, repurchased, or cancelled after adoption.

The Company uses the Black-Scholes option pricing model to determine the fair value of each option grant. Generally, the fair value approach in SFAS No. 123(R) is similar to the fair value approach described in SFAS No. 123. The Company elected to continue to estimate the fair value of stock options using the Black-Scholes optier;

MARGIN: 0in 0in Opt" align=center> **(4,407)**

(4,370)

Foreign Exchange Exposure

(3,110)

(3,135)

Notional Amount of Derivatives Contracted, Net

-

-

Cash Flow Hedge Accounting

1,421

1,393

Net Foreign Exchange Exposure**(1,689)****(1,742)**

Perpetual Bonds

1,000

1,000

Net Foreign Exchange Exposure excluding Perpetual Bonds**(689)****(742)****Capex**

CSN invested R\$293 million in 3Q17. The cumulative amount in 2017 was much lower than 2016.

| | | | |
|---------------------------|------------|------------|------------|
| Steel | 133 | 102 | 119 |
| Mining | 56 | 106 | 115 |
| Cement | 157 | 20 | 34 |
| Logistics | 36 | 11 | 19 |
| Other | 0 | 0 | 6 |
| Total Capex - IFRS | 382 | 239 | 293 |

Working Capital

Working capital invested in the Company's business totaled R\$2,935 million in 3Q17, R\$662 million less than in 2Q17, chiefly due to the decrease in inventories and accounts receivable R\$ 199 million and R\$ 174 million respectively. On a same comparison basis, the average receivable period decreased by four days, while inventory turnover fell by nine days and the average payment period moved up by two days.

In order to calculate working capital, CSN adjusts its assets and liabilities as shown below:

- Accounts Receivable: Excludes Dividends Receivable, Advances to Employees and Other Credits.

For further information, please visit our website: www.csn.com.br/ri

3Q17

EARNINGS RELEASE

- Inventories: Includes Estimated Losses and excludes Spare Parts, which is not part of the cash conversion cycle, and will be subsequently booked under Fixed Assets when consumed.
- Recoverable Taxes: Composed only by the Income (IRPJ) and Social Contribution (CSLL) Taxes amount included in Recoverable Taxes.
- Taxes Payable: Composed of Taxes Payable under Current Liabilities plus Taxes in Installments.
- Advances from Clients: Subaccount of Other Liabilities recorded under Current Liabilities.
- Suppliers: Includes Forfaiting and Drawee Risk.

| | | | | | |
|-----------------------------|--------------|--------------|--------------|--------------|------------|
| Assets | 4,953 | 6,252 | 5,868 | (383) | 915 |
| Accounts Receivable | 1,789 | 2,300 | 2,127 | (174) | 338 |
| Inventories | 3,002 | 3,744 | 3,545 | (199) | 543 |
| Recoverable Taxes | 162 | 207 | 196 | (11) | 34 |
| Liabilities | 2,287 | 2,655 | 2,933 | 278 | 646 |
| Suppliers | 1,690 | 2,078 | 2,250 | 172 | 560 |
| Payroll and Related Charges | 287 | 294 | 296 | 2 | 10 |
| Taxes Payable | 248 | 183 | 279 | 96 | 31 |
| Advances from Clients | 63 | 100 | 108 | 9 | 45 |
| Working Capital | 2,666 | 3,597 | 2,935 | (662) | 269 |
| Receivables | 34 | 41 | 37 | (4) | 3 |
| Supplier Payment | 49 | 59 | 61 | 2 | 12 |
| Inventories | 87 | 106 | 97 | (9) | 10 |
| Financial Cycle | 72 | 88 | 73 | (15) | 1 |

Results by Segment

The Company maintains integrated operations in five business segments: Steel, Mining, Logistics, Cement and Energy. The main assets and/or companies comprising each segment are presented below:

Notes: As of 2013, the Company ceased the proportional consolidation of its jointly-owned subsidiaries Namisa, MRS and CBSI. For the purpose of preparing and presenting the information by business segment, Management opted to maintain the proportional consolidation of its jointly-owned subsidiaries, in line with historical data. In the reconciliation of CSN's consolidated results, these companies' results are eliminated in the "Corporate Expenses/Elimination" column.

³Since the end of 2015 results, after the combination of CSN's mining assets (Casa de Pedra, Namisa and Tecar), the consolidated result have included all the information related to this new company.

For further information, please visit our website: www.csn.com.br/ri

3Q17

EARNINGS RELEASE

| Results 3Q17 (R\$ MM) | Steel | Mining | Logistics (Port) | Logistics(Railways) | Cement | Energy | Corporate/Eli minations | Consolidated |
|---|--------------|--------------|---------------------|---------------------|------------|------------|----------------------------|--------------|
| Net Revenue | 3,399 | 1,204 | 60 | 364 | 142 | 103 | (462) | 4,810 |
| Domestic Market | 2,133 | 218 | 60 | 364 | 142 | 103 | (638) | 2,382 |
| Foreign Market | 1,265 | 986 | - | - | - | - | 176 | 2,427 |
| Cost of Goods Sold | (2,845) | (719) | (37) | (242) | (151) | (74) | 471 | (3,597) |
| Gross Profit | 553 | 486 | 23 | 122 | (9) | 29 | 8 | 1,213 |
| Selling, General and Administrative Expenses | (253) | (40) | (6) | (21) | (20) | (7) | (143) | (491) |
| Depreciation | 165 | 122 | 4 | 63 | 30 | 5 | (45) | 344 |
| Proportional EBITDA of Jointly Controlled Companies | - | - | - | - | - | - | 147 | 147 |
| Adjusted EBITDA | 465 | 568 | 21 | 164 | 1 | 27 | (33) | 1,213 |

For further information, please visit our website: www.csn.com.br/ri

3Q17

EARNINGS RELEASE

| Results 2Q17 | Steel | Mining | Logistics (Port) | Logistics (Railways) | Cement | Energy | Corporate/Eli minations | Consolidated |
|---|--------------|--------------|---------------------|-------------------------|-------------|------------|----------------------------|--------------|
| (R\$ MM) | | | | | | | | |
| Net Revenue | 3,055 | 1,067 | 52 | 364 | 114 | 111 | (452) | 4,311 |
| Domestic Market | 1,749 | 246 | 52 | 364 | 114 | 111 | (674) | 1,963 |
| Foreign Market | 1,305 | 821 | - | - | - | - | 222 | 2,348 |
| Cost of Goods Sold | (2,628) | (742) | (38) | (244) | (126) | (71) | 523 | (3,326) |
| Gross Profit | 426 | 325 | 15 | 121 | (13) | 40 | 71 | 985 |
| Selling, General and Administrative Expenses | (271) | (42) | (7) | (23) | (20) | (7) | (222) | (592) |
| Depreciation | 172 | 124 | 4 | 65 | 33 | 6 | (48) | 356 |
| Proportional EBITDA of Jointly Controlled Companies | - | - | - | - | - | - | 147 | 147 |
| Adjusted EBITDA | 327 | 408 | 12 | 163 | (0) | 39 | (53) | 896 |

Steel

According to the World Steel Association (WSA), global crude steel production totaled 1.1 billion tonnes until August 2017, 4.9% more than in the same period last year. According to the Brazilian Steel Institute – IABr, domestic crude steel production came to 22.5 million tonnes, 9.3% up. Apparent steel consumption grew by 4.5%, to 12.6 million tonnes, with domestic sales of 11 million tonnes and imports of 1.6 million tonnes. Exports totaled 9.8 million tonnes, 12.9% more than in the same period last year. According to INDA (the Brazilian Steel Distributors' Association), in the first eight months, steel purchases by distributors declined by 1.9% year-on-year, totaling 1.9 million tonnes. Inventories stood at 897,500 tonnes at the end of August, 2.7% more than in the previous month, while inventory turnover fell to 3 months.

Automotive

According to ANFAVEA (the Auto Manufacturers' Association), vehicle production totaled 1.9 million units in the first nine months of 2017, 27% up on the same period in 2016. In the same

period, new light car, commercial vehicle, truck and bus licensing increased by 11% to 1.4 million units.

Construction

According to ABRAMAT (the Construction Material Manufacturers' Association), sales of building materials fell by 6.1% in the year through August 2017 over the same period in 2016.

Home Appliances

According to IBGE (the Brazilian Institute of Geography and Statistics), home appliance production in the year through August increased by 10.1% over the same period last year.

Results from CSN's Steel Operation

- **Total sales** came to 1,301 tonnes in 3Q17, 11% higher than 2Q17, broken down as follows: 62% from the domestic market, 32% from our subsidiaries abroad and 6% from exports.
- In 3Q17, CSN's **domestic** steel sales came to 802,000 tonnes, 23% higher than in 2Q17. Of this total, 730,000 tonnes corresponded to flat steel and 72,000 tonnes to long steel.
- **Foreign** steel sales amounted to 499,000 tonnes in 3Q17, 4% down on the previous three months. Of this total, exports reached 74,000 tonnes, the overseas subsidiaries sold 425,000 tonnes, 155,000 of which by LLC, 177,000 by SWT and 92,000 by Lusosider.

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- In the third quarter, CSN maintained its high **share of coated products** as a percentage of total sales volume, following the strategy of adding more value to its product mix. Sales of coated products such as galvanized items and tin plate accounted for 56% of flat steel sales, considering all the markets in which the Company operates. The **foreign market** was one of the quarter's highlights, with the share of coated products remaining high, at 88% in 3Q17.
- Net revenue** totaled R\$3,399 million in 3Q17, 11% up on 2Q17. **Net average revenue per tonne** stood at R\$2,519, in line with 2Q17.
- The **slab production** reached 1.1 million tonnes in 3Q17, in line with 2Q17. Flat rolled steel production totaled 903,000 tonnes.

| | | | | | |
|--|------------|--------------|--------------|-------|-------|
| Total Slabs (President Vargas Plant + Third Parties) | 857 | 1,108 | 1,069 | (4%) | 25% |
| Slab Production | 738 | 1,070 | 1,065 | 0% | 44% |
| Third-Party Slabs | 119 | 38 | 4 | - | (96%) |
| Total Rolled Flat Steel | 835 | 943 | 903 | (4%) | 8% |
| Total Long Products | 90 | 56 | 50 | (10%) | (44%) |

- COGS** moved up by 8% over the previous quarter, to R\$2,845 million, chiefly due the higher sale volume.

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- The **production cost** amounted to R\$1,906 million in 3Q17, 9% more than in 2Q17, particularly due to the better prices in purchase of raw material, especially to ore price, increased own consumption of coke, in addition to the end of maintenance of the blast furnace #3 and the hot strip mill.
- The **slab production cost** came to R\$1,286/t, 9% down on 2Q's R\$1,414.
- **Adjusted EBITDA** amounted to R\$465 million in 3Q17, 42% up on the R\$327 million recorded in 2Q17, accompanied by a 3 p.p. incline the quarter before. Adjusted EBITDA margin increased to 13.7%, 3p.p. higher than in the previous quarter.

Mining

After the sharp drop in prices in 2Q17, the closure of induction furnaces in China was a result of a decrease in steel supply, raising the utilization levels of the plants' installed capacity and margins. In this context, the commodity's price averaged US\$70.90/dmt (Platts, Fe62%, N. China) in 3Q17, 13% up on the previous quarter.

In 3Q17, seaborne freight charges continued positively impacted by higher export volumes and, additionally, a recovery in oil prices. In this scenario, maritime freight costs on Route CI-C3 (Tubarão-Qingdao) averaged US\$15.13/t in 3Q17, 12% up on 2Q17.

Results from CSN's Mining Operations

- In 3Q17, **iron ore production** totaled 7.7 million tonnes, 3% down on 2Q17, 1.4 million tonnes volume was purchased by third parties.
- Iron ore **sales** reached 7.9 million tonnes in 3Q17, 2% up on 2Q17. In the quarter, 1.3 million tonnes from CSN Mineração were sold to CSN's Presidente Vargas Plant.

| Production Volume and Mining Sales (thousand t) | 3Q16 | 2Q17 | 3Q17 | Change | |
|--|---------------|--------------|--------------|-------------|-------------|
| | | | | 3Q17 x 2Q17 | 3Q17 x 3Q16 |
| Iron Ore Production | 8,553 | 7,948 | 7,738 | -3% | -10% |
| Third Parties Purchase | 797 | 167 | 1,419 | 752% | 78% |
| Total Production + Purchase | 9,350 | 8,114 | 9,157 | 13% | -2% |
| UPV Sale | 1,114 | 1,307 | 1,321 | 1% | 19% |
| Third Parties Sales Volume | 9,116 | 6,511 | 6,632 | 2% | -27% |
| Total Sales | 10,230 | 7,818 | 7,953 | 2% | -22% |

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- **Net revenue** from mining operations totaled R\$1,204 million, 13% higher than in 2Q17. CFR+FOB unit revenue stood at US\$55,7/t, 13% more than in 2Q17, while the iron ore price index (Platts, 62% Fe, N. China) also fell by 13% in the same period.
- Mining **COGS** came to R\$719 million in 3Q17, 3% lower than in 2Q17.
- **Adjusted EBITDA** totaled R\$568 million in 3Q17, 39% up on 2Q17, with an adjusted EBITDA margin of 47%, 8.9 p.p. more than in 2Q17.

(CFR + FOB* - US\$/wmt delivered to China)

The table above shows the price of the two modalities, CFR+FOB.

Logistics

Railway Logistics: Net revenue stood at R\$364 million in 3Q17, generating **EBITDA** of R\$164 million, accompanied by an **EBITDA margin** of 45%.

Port Logistics: Sepetiba Tecon handled nearly 51,000 containers, in addition to 250,000 tonnes of steel products. **Net revenue** totaled R\$60 million, generating **EBITDA** of R\$21 million, accompanied by an **EBITDA margin** of 35%.

| Sepetiba TECON Highlights | 3Q16 | 2Q17 | 3Q17 | Change | |
|------------------------------------|------|------|------|----------------|----------------|
| | | | | 3Q17 x 2Q17 | 3Q17 x 3Q16 |
| Containers Volume (thousand units) | 34 | 39 | 51 | 31% | 49% |
| Steel Products Volume (thousand t) | 127 | 212 | 250 | 18% | 97% |
| General Cargo Volume (thousand t) | 5 | 1 | 0 | -61% | -95% |

Cement

Preliminary figures from SNIC (the Cement Industry Association) indicate domestic cement sales of 40.5 million tonnes from January to September 2017, 7.4% less than in the same period the year before.

Results from CSN's Cement Operations

In 3Q17, **cement sales** totaled 982,000 tonnes, 17% up on 2Q17, while **net revenue** amounted to R\$142 million.

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| Sepetiba TECON Highlights | 3Q16 | 2Q17 | 3Q17 | Change | |
|---------------------------|------|------|------|----------------|----------------|
| | | | | 3Q17 x 2Q17 | 3Q17 x 3Q16 |
| Total Production | 860 | 841 | 982 | 17% | 14% |
| Total Sales | 850 | 831 | 998 | 20% | 17% |

Energy

According to the Energy Research Company (EPE), the trend of stability in the energy market continued in August, with consumption edging down 0.1% year-over-year, to 37,583 GWh. In the year through August, consumption remained in line with the same period last year. Considering the Brazilian regions, the South grew by 4.0% and the North by 3.4%, while the Northeast fell by 2.1%, the Southeast by 1.3% and the Midwest by 0.1%. The captive market of the distribution companies fell by 6.3% in the month, while free consumption increased by 15.3%.

Results from CSN's Energy Operations

In 3Q17, **net revenue** from energy operations totaled R\$103 million, **EBITDA** stood at R\$27 million and **EBITDA margin** was 26.5%.

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Capital Market

CSN's shares appreciated by 32% in 3Q17, while the IBOVESPA moved up by 17%. Daily traded volume on the B3 S.A. - BRASIL BOLSA BALCÃO averaged R\$72.6 million. On the New York Stock Exchange (NYSE), CSN's American Depositary Receipts (ADRs) appreciated by 17%, versus the Dow Jones' 4% appreciation. On the NYSE, daily traded volume of CSN's ADRs averaged US\$7.4 million.

| | |
|--|------------------|
| Number of shares in thousands | 1,387,524 |
| Market Cap: | |
| Closing price (R\$/share) | 9.61 |
| Closing price (US\$/ADR) | 2.96 |
| Market cap (R\$ million) | 13,334 |
| Market cap (US\$ million) | 4,107 |
| Total return including dividends and interest on equity | |
| CSNA3 | 32% |
| SID | 32% |
| Ibovespa | 17% |
| Dow Jones | 4% |
| Volume | |
| Daily average (thousand shares) | 8,311 |
| Daily average (R\$ thousand) | 72,650 |
| Daily average (thousand ADRs) | 2,684 |
| Daily average (US\$ thousand) | 7,405 |
| <i>Source: Bloomberg</i> | |

| | |
|--|--|
| | |
|--|--|

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Certain of the statements contained herein are forward-looking statements, which express or imply results, performance or events that are expected in the future. These include future results that may be implied by historical results and the statements under 'Outlook'. Actual results, performance or events may differ materially from those expressed or implied by the forward-looking statements as a result of several factors, such as the general and economic conditions in Brazil and other countries, interest rate and exchange rate levels, protectionist measures in the U.S., Brazil and other countries, changes in laws and regulations and general competitive factors (on a global, regional or national basis).

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3Q17

EARNINGS RELEASE

INCOME STATEMENT

CONSOLIDATED - Coporate Law (In Thousand of R\$)

| | 3Q16 | 2Q17 | 3Q17 |
|---|--------------------|--------------------|--------------------|
| Net Revenues | 4,469,240 | 4,310,609 | 4,809,671 |
| Domestic Market | 2,100,371 | 1,962,864 | 2,382,265 |
| Foreign Market | 2,368,869 | 2,347,745 | 2,427,406 |
| Cost of Goods Sold (COGS) | (3,157,057) | (3,325,893) | (3,596,936) |
| COGS, excluding depreciation | (2,851,368) | (2,977,952) | (3,260,372) |
| Depreciation allocated to COGS | (305,689) | (347,941) | (336,564) |
| Gross Profit | 1,312,183 | 984,716 | 1,212,735 |
| Gross Margin (%) | 29% | 23% | 25% |
| Selling expenses | (403,112) | (477,063) | (412,345) |
| General and administrative expenses | (114,429) | (106,801) | (70,646) |
| Depreciation allocated to SG&A | (5,662) | (7,829) | (7,727) |
| Other operation income (expense), net | (7,723) | (99,025) | (97,824) |
| Share of profits (losses) of investees | 26,117 | 39,393 | 38,002 |
| Operational Income before Financial Results | 807,374 | 333,391 | 662,195 |
| Net Financial Results | (744,345) | (828,619) | (277,797) |
| Profit before finance income (costs) and taxes | 63,029 | (495,228) | 384,398 |
| Income Tax and Social Contribution | (122,796) | (144,728) | (128,214) |
| Continued operations, net | (59,767) | (639,956) | 256,184 |
| Discontinued Operations, Net | (6,984) | - | |
| Profit / Loss before period | (66,751) | (639,956) | 256,184 |

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BALANCE SHEET

Company Corporate Law (In Thousand of R\$)

| | Consolidated | |
|---|-------------------|-------------------|
| | 12/31/2016 | 09/31/2017 |
| Current assets | 12,444,918 | 11,653,843 |
| Cash and cash equivalents | 5,631,553 | 4,138,770 |
| Trade receivables | 1,997,216 | 2,240,375 |
| Inventories | 3,964,136 | 4,246,458 |
| Other current assets | 852,013 | 1,028,240 |
| Non-current assets | 31,708,705 | 32,219,870 |
| Long-term receivables | 1,745,971 | 1,778,197 |
| Investments measured at amortized cost | 4,568,451 | 5,293,244 |
| Property, plant and equipment | 18,135,879 | 17,875,819 |
| Intangible assets | 7,258,404 | 7,272,610 |
| Total assets | 44,153,623 | 43,873,713 |
| Current liabilities | 5,496,683 | 7,848,924 |
| Payroll and related taxes | 253,837 | 296,167 |
| Suppliers | 1,763,206 | 2,249,151 |
| Taxes payable | 231,861 | 269,168 |
| Borrowings and financing | 2,117,448 | 3,983,810 |
| Other payables | 1,021,724 | 950,560 |
| Provision for tax, social security, labor and civil risks | 108,607 | 100,068 |
| Non-current liabilities | 31,272,419 | 28,058,141 |
| Borrowings and financing | 28,323,570 | 25,020,128 |
| Deferred Income Tax and Social Contribution | 1,046,897 | 1,167,974 |
| Other payables | 131,137 | 129,811 |
| Provision for tax, social security, labor and civil risks | 704,485 | 718,592 |
| Other provisions | 1,066,330 | 1,021,636 |
| Shareholders' equity | 7,384,521 | 7,966,648 |

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| | | |
|---|-------------------|-------------------|
| Paid-in capital | 4,540,000 | 4,540,000 |
| Capital reserves | 30 | 30 |
| Accumulated Losses | (1,301,961) | (1,649,259) |
| Statutory reserve | 2,956,459 | 3,804,741 |
| Non-controlling interests | 1,189,993 | 1,271,136 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 44,153,623 | 43,873,713 |

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CASH FLOW STATEMENT

CONSOLIDATED - Corporate Law (In Thousand of R\$)

| | 2Q17 | 3Q17 |
|--|------------------|------------------|
| Net cash generated by operating activities | (386,723) | 585,411 |
| (Net Losses) / Net income attributable to controlling shareholders | (659,394) | 226,466 |
| Loss for the period attributable to non-controlling interests | 19,438 | 29,718 |
| Charges on borrowings and financing | 616,247 | 561,341 |
| Depreciation, depletion and amortization | 366,400 | 355,400 |
| Share of profits (losses) of investees | (39,393) | (38,002) |
| Deferred income tax and social contribution | 72,069 | 37,309 |
| Foreign exchange and monetary variations, net | 436,831 | (404,039) |
| Result from derivative financial instruments | (5,017) | (10,262) |
| Write off fixed assets and intangible | 33,603 | (14,575) |
| Environmental liabilities and Deactivation Provisions | (38,076) | (9,136) |
| Fiscal, Social Security, Labor, Civil and Environmental Provisions | (18,985) | (27,009) |
| Working Capital | (606,281) | 502,326 |
| Accounts Receivable | (469,861) | 163,272 |
| Trade Receivables – Related Parties | 39,655 | (7,165) |
| Inventory | (136,027) | 184,935 |
| Interest receive - Related Parties | (4,536) | (6,748) |
| Judicial Deposits | (8,137) | (9,323) |
| Suppliers | 104,457 | 183,578 |
| Taxes and Contributions | (61,144) | 41,197 |
| Others | (70,688) | (47,420) |
| Others Payments and Receipts | (564,165) | (624,126) |
| Interest Expenses | (564,165) | (624,126) |
| Cash Flow from Investment Activities | (234,503) | (297,953) |
| Fixed Assets/Intangible | (239,127) | (288,498) |
| Derivative transactions | 4,457 | 10,717 |

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| | | |
|--|------------------|------------------|
| Loans / Receive loans - related parties | 2,644 | |
| Short-term investment, net of redeemed amount | (2,477) | (20,172) |
| Cash Flow from Financing Companies | (92,624) | (500,336) |
| Borrowings and financing raised, net of transaction costs | | 171,000 |
| Borrowing amortizations - principal | (92,624) | (671,336) |
| Foreign Exchange Variation on Cash and Cash Equivalents | (10,607) | 2,971 |
| Free Cash Flow | (724,457) | (209,907) |

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SALES VOLUME CONSOLIDATED (thousand tonnes)

| | 3Q16 | 2Q17 | 3Q17 | Change | |
|------------------------|------------|------------|------------|-------------|-------------|
| | | | | 3Q17 x 2Q17 | 3Q17 x 3Q16 |
| Flat Steel | 682 | 592 | 730 | 138 | 48 |
| Slabs | - | - | 1 | 1 | 1 |
| Hot Rolled | 233 | 216 | 267 | 52 | 34 |
| Cold Rolled | 129 | 117 | 155 | 38 | 27 |
| Galvanized | 218 | 191 | 234 | 43 | 15 |
| Tin Plates | 102 | 68 | 73 | 4 | (29) |
| Long Steel UPV | 49 | 60 | 72 | 12 | 24 |
| DOMESTIC MARKET | 730 | 652 | 802 | 150 | 72 |

| | 3Q16 | 2Q17 | 3Q17 | 3Q17 x 2Q17 | 3Q17 x 3Q16 |
|------------------------------|------------|------------|------------|-------------|-------------|
| | | | | | |
| Hot Rolled | 16 | 14 | 16 | 1 | (0) |
| Cold Rolled | 19 | 24 | 22 | (2) | 3 |
| Galvanized | 212 | 232 | 233 | 1 | 20 |
| Tin Plates | 35 | 46 | 51 | 5 | 16 |
| Long Steel (profiles) | 159 | 205 | 177 | (27) | 18 |
| FOREIGN MARKET | 441 | 521 | 499 | (23) | 58 |

| | 3Q16 | 2Q17 | 3Q17 | 3Q17 x 2Q17 | 3Q17 x 3Q16 |
|------------------------------|--------------|--------------|--------------|-------------|-------------|
| | | | | | |
| Slabs | - | - | 1 | 1 | 1 |
| Hot Rolled | 249 | 230 | 283 | 53 | 34 |
| Cold Rolled | 148 | 141 | 177 | 36 | 29 |
| Galvanized | 431 | 423 | 466 | 43 | 35 |
| Tin Plates | 136 | 115 | 124 | 9 | (12) |
| Long Steel UPV | 49 | 60 | 72 | 12 | 23 |
| Long Steel (profiles) | 159 | 205 | 177 | (28) | 18 |
| TOTAL MARKET | 1,172 | 1,174 | 1,301 | 127 | 129 |

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