

DR REDDYS LABORATORIES LTD
Form 6-K
March 10, 2009

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, 2008
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-_____.

QUARTERLY REPORT
Quarter Ended September 30, 2008

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 International Financial Reporting Standards.

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 Depositary 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. All references to IAS are to the International Accounting Standards, to IASB are to the International Accounting Standards Board, to IFRS are to International Financial Reporting Standards, to SIC are Standing Interpretations Committee and to IFRIC are to the International Financial Reporting Interpretations Committee.

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

References to U.S. or United States are to the United States of America, its territories and its possessions. References to India are to the Republic of India. All references to we, us, our, DRL, Dr. Reddy's or the Company shall mean Dr. Reddy's Laboratories Limited and its 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 September 30, 2008 for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York, which was Rs.46.45 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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ITEM 1. FINANCIAL STATEMENTS

DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS

(in thousands, except share and per share data)

Particulars	Note	September 30, 2008 <i>Convenience translation into U.S.\$</i>	As of September 30, 2008	March 31, 2008
Assets				
Property, plant and equipment	9	U.S.\$ 435,283	Rs. 20,218,904	Rs. 16,765,432
Goodwill	10	393,883	18,295,861	16,997,288
Intangible assets	11	403,506	18,742,869	16,755,508
Investment in equity accounted investees		5,179	240,548	237,054
Other investments				2,728
Other non-current assets		3,243	150,636	80,153
Total non-current assets		U.S.\$ 1,241,094	Rs. 57,648,818	Rs. 50,838,163
Inventories	12	U.S.\$ 331,045	Rs. 15,377,021	Rs.11,132,830
Trade receivables, net of allowances		223,364	10,375,245	6,823,448
Other current assets		123,102	5,718,082	3,858,155
Other investments		28,605	1,328,721	4,753,580
Cash and cash equivalents	13	110,236	5,120,446	7,421,441
Total current assets		U.S.\$ 816,351	Rs. 37,919,515	Rs. 33,989,454
Total assets		U.S.\$ 2,057,445	Rs.95,568,333	Rs.84,827,617
Equity				
Share capital		U.S.\$ 18,127	Rs. 842,004	Rs. 840,864
Share premium		434,204	20,168,788	20,036,473
Unrealized gain/(loss) on investments		199	9,235	(1,757)
Foreign currency translation reserve		62,748	2,914,634	1,566,499
Share based payment reserve		14,956	694,684	709,006
Hedging reserve		(12,216)	(567,421)	(6,642)
Equity shares held by controlled trust		(105)	(4,882)	(4,882)
Retained earnings		551,921	25,636,732	24,211,253
Total equity		U.S.\$ 1,069,834	Rs.49,693,774	Rs.47,350,814
Liabilities				

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Long term loans and borrowings, excluding current portion	19	U.S.\$	257,670	Rs.11,968,768	Rs. 12,697,550
Provisions			3,698	171,762	122,901
Other non-current liabilities			8,578	398,435	323,378
Deferred tax liabilities			99,921	4,641,345	4,856,381
Total non-current liabilities		U.S.\$	369,867	Rs.17,180,310	Rs.18,000,210
Bank overdraft	13	U.S.\$	31,953	Rs.1,484,232	Rs. 434,928
Short term loans and borrowings	19		133,282	6,190,948	4,427,781
Long term loans and borrowings, current portion	19		54,798	2,545,360	1,791,004
Trade payables			176,409	8,194,217	5,426,546
Provisions			31,615	1,468,501	626,999
Other current liabilities			189,688	8,810,991	6,769,335
Total current liabilities		U.S.\$	617,745	Rs.28,694,249	Rs.19,476,593
Total liabilities		U.S.\$	987,612	Rs.45,874,559	Rs.37,476,803
Total equity and liabilities		U.S.\$	2,057,445	Rs.95,568,333	Rs.84,827,617

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 thousands, except share and per share data)

Particulars	Note	Six months ended			Three months ended	
		2008 <i>Convenience translation into U.S.\$</i>	September 30, 2008	2007	September 30, 2008	2007
Revenue		U.S.\$ 671,448	Rs. 31,188,773	Rs. 24,434,270	Rs. 16,150,970	Rs. 12,451,213
Cost of revenues		338,663	15,730,910	12,083,881	8,187,444	6,169,701
Gross profit		U.S.\$ 332,785	Rs. 15,457,863	Rs. 12,350,389	Rs. 7,963,526	Rs. 6,281,512
Selling, general and administrative expenses		223,276	10,371,162	7,998,889	5,285,810	4,417,584
Research and development expenses		40,361	1,874,764	1,615,846	824,694	809,569
Other expense/(income), net	14	7,075	328,616	(151,389)	87,511	(68,708)
Total operating expenses, net		U.S.\$ 270,711	Rs. 12,574,542	Rs. 9,463,346	Rs. 6,198,015	Rs. 5,158,445
Results from operating activities		62,074	2,883,321	2,887,043	1,765,511	1,123,067
Finance income		5,098	236,791	1,053,846	92,570	477,570
Finance expense		(13,823)	(642,098)	(593,669)	(574,907)	(175,804)
Finance income/(expense), net	15	(8,726)	(405,307)	460,177	(482,337)	301,766
Share of profit/(loss) of equity accounted investees, net of income tax		44	2,053	(603)	1,756	3,425
Profit before income tax		53,392	2,480,067	3,346,617	1,284,930	1,428,258
Income tax (expense)/benefit	8	(6,806)	(316,144)	776,786	(232,298)	1,098,502
Profit for the period		U.S.\$ 46,586	Rs. 2,163,923	Rs. 4,123,403	Rs. 1,052,632	Rs. 2,526,760
Attributable to:						
		46,586	2,163,923	4,127,523	1,052,632	2,527,857

Equity holders of the Company						
Minority interest			(4,120)			(1,097)

Profit for the period **U.S.\$ 46,586 Rs. 2,163,923 Rs. 4,123,403 Rs. 1,052,632 Rs. 2,526,760**

Earnings per share 16

Basic earnings per share of Rs.5/- each	0.28	12.86	24.57	Rs. 6.25	Rs. 15.04
Diluted earnings per share of Rs.5/- each	0.28	12.80	24.46	Rs. 6.23	Rs. 14.99

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 CASH FLOW STATEMENTS
(in thousands, except share and per share data)

Particulars	Share capital		Share premium	Unrealized	Foreign	Share based
	Shares	Amount	Amount	gain/(loss) on other investments Amount	currency translation reserve Amount	pay- ment reserve Amount
Balance as of April 1, 2008	168,172,746	Rs. 840,864	Rs. 20,036,473	Rs. (1,757)	Rs. 1,566,499	Rs. 709,006
Issue of equity shares on exercise of options	227,982	1,140	132,315			(128,622)
Share based payment expense						114,300
Profit for the period						
Dividend paid						
Changes in fair value of investments, net of tax expense of Rs.2,875				10,992		
Foreign exchange translation adjustments, net of tax expense of Rs.137,217					1,348,135	
Effective portion of changes in fair value of cash flow hedges, net of tax benefit of Rs.288,758						
Balance as of September 30, 2008	168,400,728	Rs. 842,004	Rs. 20,168,788	Rs. 9,235	Rs. 2,914,634	Rs. 694,684
		U.S.\$ 18,127	U.S.\$ 434,204	U.S.\$ 199	U.S.\$ 62,748	U.S.\$ 14,956

**Convenience
translation
into U.S.\$**

Balance as of April 1, 2007	167,912,180	Rs. 839,561	Rs. 19,908,837	Rs. (125,182)	Rs. 342,858	Rs. 564,937
Issue of equity share on exercise of options	185,262	927	93,245			(84,222)
Share based payment expense						107,664
Profit for the period						
Dividend paid						
Changes in fair value of investments, net of tax expense of Rs.18,087				73,754		
Foreign exchange translation adjustments					(182,982)	
Minority interest						
Balance as of September 30, 2007	168,097,442	Rs. 840,488	Rs. 20,002,082	Rs. (51,428)	Rs. 159,876	Rs. 588,379

[Continued in next page]

[Continued from table on page 6, first column(s) repeated]

Particulars	Hedging reserve Amount	Equity shares held by a controlled	Retained earnings Amount	Minority interest Amount	Total equity Amount
		trust* Amount			
Balance as of April 1, 2008	Rs. (6,642)	Rs. (4,882)	Rs. 24,211,253		Rs. 47,350,814
Issue of equity shares on exercise of options					4,833
Share based payment expense					114,300
Profit for the period			2,163,923		2,163,923
Dividend paid			(738,444)		(738,444)
Changes in fair value of investments, net of tax expense of Rs.2,875					10,992
Foreign exchange translation adjustments, net of tax expense of Rs.137,217					1,348,135
Effective portion of changes in fair value of cash flow hedges, net of tax benefit of Rs.288,758	(560,779)				(560,779)
Balance as of September 30, 2008	Rs. (567,421)	Rs. (4,882)	Rs. 25,636,732		Rs. 49,693,774
Convenience translation into U.S.\$	U.S.\$ (12,216)	U.S.\$ (105)	U.S.\$ 551,921		U.S.\$ 1,069,834
Balance as of April 1, 2007		Rs. (4,882)	Rs. 21,101,794	Rs. 10,473	Rs. 42,638,396
Issue of equity share on exercise of options					9,950
Share based payment expense					107,664
Profit for the period			4,127,523		4,127,523
Dividend paid			(737,287)		(737,287)
Changes in fair value of investments, net of tax expense of					73,754

Rs.18,087				
Foreign exchange translation adjustments				(182,982)
Minority interest			(4,120)	(4,120)
Balance as of September 30, 2007	Rs. (4,882)	Rs. 24,492,030	Rs. 6,353	Rs. 46,032,898

* The number of equity shares held by a controlled trust as of April 1, 2007, September 30, 2007, April 1, 2008 and September 30, 2008 is 82,800.

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 CASH FLOW STATEMENTS
(in thousands, except share and per share data)

Particulars	For the six months ended September 30,		
	2008	2008	2007
	<i>Convenience translation into U.S.\$</i>		
Cash flows from/(used in) operating activities:			
Profit for the period	U.S.\$ 46,586	Rs. 2,163,923	Rs. 4,123,403
Adjustments for:			
Income tax expense/(benefit)	6,806	316,144	(776,786)
Profit on sale of investments	(2,521)	(117,078)	(16,186)
Depreciation and amortization	41,557	1,930,322	1,555,586
Allowances for doubtful trade receivable	1,211	56,243	28,065
Inventory write-downs	1,570	72,915	163,299
(Profit)/loss on sale of property, plant and equipment, net	(269)	(12,516)	1,138
Equity in (profit)/loss of equity accounted investees	(44)	(2,053)	603
Unrealized exchange (gain)/loss, net	(12,221)	(567,649)	(46,855)
Interest expense, net	8,664	402,464	114,679
Share based payment expense	2,461	114,300	107,664
Negative goodwill on acquisition of business	(3,238)	(150,403)	
<i>Changes in operating assets and liabilities:</i>			
Trade receivables	(58,244)	(2,705,422)	(1,113,861)
Inventories	(69,728)	(3,238,876)	(2,483,965)
Other assets	(7,192)	(334,062)	(1,330,779)
Trade payables	38,940	1,808,741	1,852,090
Other liabilities and provisions	12,669	588,470	739,270
Income tax paid	(11,323)	(525,937)	(617,137)
Net cash from/(used in) operating activities	U.S.\$ (4,316)	Rs. (200,474)	Rs. 2,300,228
Cash flows used in investing activities:			
Expenditures on property, plant and equipment	(55,465)	(2,576,330)	(2,261,327)
Proceeds from sale of property, plant and equipment	507	23,570	13,680
Purchase of investments	(185,162)	(8,600,759)	(5,750,000)
Proceeds from sale of investments	261,772	12,159,290	4,762,499
Expenditures on intangible assets	(5,224)	(242,632)	(43,544)
Cash paid towards contingent consideration	(1,208)	(56,093)	(206,895)
Cash paid for acquisition of business	(66,503)	(3,089,062)	
Cash paid for acquisition of equity accounted investee, net of cash acquired of Rs.385,714	(8,011)	(372,088)	
Interest received	2,812	130,596	476,757

Net cash used in investing activities	U.S.\$ (56,480)	Rs.	Rs. (2,623,508)	Rs. (3,008,830)
Cash flows from/(used in) financing activities:				
Interest paid	(11,170)		(518,845)	(532,260)
Proceeds from issuance of equity shares	104		4,833	9,950
Proceeds/(repayments) of short term loans and borrowings, net	30,892		1,434,914	(1,232,797)
Repayment of long-term loans and borrowings, net	(20,622)		(957,882)	(6,021,692)
Dividend paid	(15,898)		(738,444)	(737,287)
Net cash from/(used in) financing activities	U.S.\$ (16,694)	Rs.	Rs. (775,424)	Rs. (8,514,086)
Net decrease in cash and cash equivalents	(77,490)		(3,599,406)	(9,222,688)
Effect of exchange rate changes on cash and cash equivalents	5,363		249,107	(825,796)
Cash and cash equivalents at the beginning of the period	150,409		6,986,513	18,061,576
Cash and cash equivalents at the end of the period	U.S.\$ 78,282	Rs.	Rs. 3,636,214	Rs. 8,013,092

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

1. Reporting Entity

Dr. Reddy's Laboratories Limited (DRL or the parent company) together with its subsidiaries (collectively, the Company) is a leading India-based pharmaceutical company headquartered in Hyderabad, India. The Company's principal areas of operation are in pharmaceutical services and active ingredients, global generics, and proprietary products. The Company's principal research and development facilities are located in Andhra Pradesh, India and in the United States; its principal manufacturing facilities are located in Andhra Pradesh, India, Himachal Pradesh, India and Cuernavaca-Cuautla, Mexico; and its principal marketing facilities are located in India, Russia, the United States, the United Kingdom, Brazil and Germany. The Company's shares trade on the Bombay Stock Exchange and the National Stock Exchange in India and, since April 11, 2001, also on the New York Stock Exchange in the United States. These unaudited condensed consolidated interim financial statements were authorized for issuance by the Company's Board of Directors on March 4, 2009.

2. Basis of preparation of financial statements

a. Statement of compliance

These condensed consolidated interim financial statements as at and for the three and six months ended September 30, 2008 have been prepared in accordance with IFRS and its interpretations issued by IASB. These condensed consolidated interim financial statements form part of the period covered by the first IFRS annual financial statements for the year ending March 31, 2009 and IFRS 1, *First-time adoption of International Financial Reporting Standards* has been applied. These condensed consolidated interim financial statements do not include all the information required for full annual consolidated financial statements and are prepared in accordance with IAS 34, *Interim Financial Reporting* .

An explanation of how the transition to IFRS has affected the reported financial position and financial performance of the Company is provided in Note 4. This Note includes reconciliations of equity and profit or loss for comparative periods under U.S. GAAP (sometimes referred to herein as Previous GAAP) to those reported for those periods under IFRS.

b. Basis of preparation

These condensed consolidated interim financial statements have been prepared on the basis of relevant IFRS that are effective or available for early adoption at the Company's first IFRS annual reporting date, March 31, 2009. Based on these IFRS, the Board of Directors has made assumptions about the accounting policies expected to be adopted (accounting policies) when the first IFRS annual financial statements are prepared for the year-ending March 31, 2009.

The IFRS that will be effective or available for voluntary early adoption in the annual financial statements for the period ending March 31, 2009 are still subject to change and to the issue of additional interpretation(s) and therefore cannot be determined with certainty. Accordingly, the accounting policies for such annual period that are relevant to this interim financial information will be determined only when the first IFRS financial statements are prepared at March 31, 2009.

The preparation of the condensed consolidated interim financial statements in accordance with IAS 34 resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Previous GAAP. The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements. They also have been applied in preparing an opening IFRS balance sheet at April 1, 2007 for the purposes of the transition to IFRS, as required by IFRS 1. The impact of the transition from Previous GAAP to IFRS is explained in Note 4.

c. Basis of measurement/accounting convention

These condensed consolidated interim financial statements have been prepared on the historical cost basis and on an accrual basis, except for the following:

derivative financial instruments are measured at fair value; and

available-for-sale financial assets are measured at fair value.

2. Basis of preparation of financial statements (continued)

d. Functional and presentation currency

The condensed consolidated interim financial statements are presented in Indian rupees, which is the functional currency of DRL. Functional currency of an entity is the currency of the primary economic environment in which the entity operates.

In respect of all non-Indian subsidiaries that operate as marketing arms of the parent company in their respective countries/regions, the functional currency has been determined to be the functional currency of the parent company, i.e., the Indian rupee. Accordingly, the operations of these entities are largely restricted to import of finished goods from the parent company in India, sale of these products in the foreign country and remittance of the sale proceeds to the parent company. The cash flows realized from sale of goods are readily available for remittance to the parent company and cash is remitted to the parent company on a regular basis. The costs incurred by these entities are primarily the cost of goods imported from the parent company. The financing of these subsidiaries is done directly or indirectly by the parent company.

In respect of subsidiaries whose operations are self contained and integrated within their respective countries/regions, the functional currency has been determined to be the local currency of those countries/regions. The assets and liabilities of such subsidiaries are translated into Indian rupees at the rate of exchange prevailing as at the reporting date. Revenues and expenses are translated into Indian rupees at average exchange rates prevailing during the year. Resulting translation adjustments are included in foreign currency translation reserve.

All financial information presented in Indian Rupees has been rounded to the nearest thousand.

e. Convenience translation

The accompanying unaudited condensed consolidated interim financial statements have been prepared in Indian rupees. Solely for the convenience of the reader, the unaudited condensed consolidated interim financial statements as of and for the six months ended September 30, 2008 have been translated into United States dollars at the noon buying rate in New York City on September 30, 2008 for cable transfers in Indian rupees, as certified for customs purposes by the Federal Reserve Bank of New York of U.S.\$1.00 = Rs.46.45. 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.

f. Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following Notes:

Note 3(b) Assessment of functional currency for foreign operations

Note 3(c) and 7 Financial instruments

Note 3(h) Measurement of recoverable amounts of cash-generating units

Note 3(j) Provisions

Note 3(k) Sales returns, rebates and chargeback provisions

Note 3(m) Determination of annual effective tax rate in interim periods and recoverability of deferred tax assets

Note 6 Business combinations

Note 21 Contingencies

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3. Significant accounting policies

a. Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the condensed consolidated interim financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

Special purpose entities

The Company has established certain special purpose entities (SPEs) for business purposes. The Company does not have any direct or indirect shareholdings in these entities. A SPE is consolidated if, based on an evaluation of the substance of its relationship with the Company and the SPE s risks and rewards, the Company concludes that it controls the SPE. SPEs controlled by the Company were established under terms that impose strict limitations on the decision-making powers of the SPE s management and that result in the Company receiving the majority of the benefits related to the SPE s operations and net assets, being exposed to risks incident to the SPE s activities, and retaining the majority of the residual or ownership risks related to the SPE or its assets.

Associates and jointly controlled entities (equity accounted investees)

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity. Joint ventures are those entities over whose activities the Company has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associates and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are initially recognized at cost. The condensed consolidated interim financial statements include the Company s share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Company s share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long term investments) is reduced to zero and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

The Company does not consolidate entities where the minority shareholders have certain significant participating rights that provide for effective involvement in significant decisions in the ordinary course of business of such entities. Investments in such entities are accounted by the equity method of accounting.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the condensed consolidated interim financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Company s interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

3. Significant accounting policies (continued)

b. Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising upon retranslation are recognized in profit or loss, except for differences arising on qualifying cash flow hedges, which are recognized directly in equity.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising upon acquisition, are translated to reporting currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to reporting currency at average rates prevailing during the year.

Foreign currency differences are recognized directly in equity. Such differences have been recognized in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognized directly in equity in the FCTR.

c. Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments is comprised of investments in equity and debt securities, trade receivables, certain other assets, cash and cash equivalents, loans and borrowings, trade payables and certain other liabilities. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents

Cash and cash equivalents is comprised of cash balances, current and time deposits with banks. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Held-to-maturity investments

If the Company has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

The Company's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale monetary items are recognized directly in equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred to profit or loss.

3. Significant accounting policies (continued)

c. Financial instruments (continued)

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Other

Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

Derivative financial instruments

The Company holds derivative financial instruments to hedge its foreign currency exposure. Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognized directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognized in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognized in equity is transferred to the carrying amount of the asset when it is recognized. In other cases the amount recognized in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Economic hedges

Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognized in profit or loss as part of foreign currency gains and losses.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

d. Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment including assets acquired under a finance lease are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

3. Significant accounting policies (continued)**d. Property, plant and equipment (continued)**

Gains and losses upon disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within other income/expense, net in profit or loss.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Buildings

- Factory and administrative buildings 25 50 years

- Ancillary structures 3 15 years

Plant and equipment 3 15 years

Furniture, fixtures and office equipment 4 10 years

Vehicles 4 5 years

Computer equipment 3 5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

e. Intangible assets**Goodwill**

Goodwill (negative goodwill) arises upon the acquisition of subsidiaries, associates and joint ventures.

Acquisitions prior to April 1, 2007

As part of its transition to IFRS, the Company elected to restate only those business combinations that occurred on or after April 1, 2007. In respect of acquisitions prior to April 1, 2007, goodwill represents the amount recognized under Previous GAAP.

Acquisitions on or after April 1, 2007

For acquisitions on or after April 1, 2007, goodwill represents the excess of the cost of the acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognized immediately in profit or loss.

Acquisitions of minority interests

Goodwill arising upon the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

3. Significant accounting policies (continued)

e. Intangible assets (continued)

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

Research and development

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditures capitalized include the cost of materials, direct labor and overhead costs that are directly attributable to preparing the asset for its intended use. Borrowing costs related to the development of qualifying assets are capitalized as a part of the cost of that asset. Other development expenditures are recognized in profit or loss as incurred.

Internal product development expenditures are capitalized only if they meet the recognition criteria as mentioned above. Where regulatory and other uncertainties are such that the criteria are not met the expenditures are recognized in the Company's income statement. This is almost invariably the case prior to approval of the drug by the relevant regulatory authority. Where, however, the recognition criteria are met, intangible assets are capitalized and amortized on a straight-line basis over their useful economic lives from product launch. Payments to in-license products and compounds from external third parties for new research and development projects (in-process research and development), generally taking the form of up-front payments and milestones, are capitalized and amortized, generally on a straight-line basis, over their useful economic lives from product launch.

Intangible assets relating to products in development (both internally generated and externally acquired), other intangible assets not available for use and intangible assets having indefinite useful life are subject to impairment testing at each balance sheet date. All other intangible assets are tested for impairment when there are indications that the carrying value may not be recoverable. Any impairment losses are recognized immediately in the Company's income statement. Trademarks with indefinite useful lives are tested for impairment annually.

Capitalized development expenditures are measured at cost less accumulated amortization and accumulated impairment losses.

Advances paid for research and development activities are shown as other receivables in the balance sheet until the time that actual cost is incurred for such research and development activities. Such amounts are capitalized or recognized as an expense, as the case may be, as the related goods are delivered or the related services are performed.

Other intangible assets

Other intangible assets that are acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

Subsequent expenditures

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

Amortization

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than for goodwill, intangible assets not available for use and intangible assets having indefinite life, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

3. Significant accounting policies (continued)**e. Intangible assets (continued)**

Trademarks with finite useful life	3	10 years
Product related intangibles	6	15 years
Beneficial toll manufacturing contract		24 months
Non-competition arrangements	1.5	10 years
Marketing rights	3	16 years
Customer-related intangibles	2	11 years
Other intangibles	5	15 years

f. Leases

At the inception of a lease, the lease arrangement is classified as either a finance lease or an operating lease, based on the substance of the lease arrangement.

Finance leases

A finance lease is recognized as an asset and a liability at the commencement of the lease, at the lower of the fair value of the asset and the present value of the minimum lease payments. Initial direct costs, if any, are also capitalized and subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating leases

Other leases are operating leases and the leased assets are not recognized on the Company's balance sheet. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

g. Inventories

Inventories consist of raw materials, stores and spares, work in progress and finished goods and are measured at the lower of cost and net realizable value. The cost of all categories of inventories, except stores and spares, is based on the first-in, first-out principle. Stores and spares is comprised of packing materials, engineering spares (such as machinery spare parts) and consumables (such as lubricants, cotton waste and oils), which are used in operating machines or consumed as indirect materials in the manufacturing process, where cost is based on a weighted average method. Cost includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of finished goods and work in progress, cost includes an appropriate share of overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

3. Significant accounting policies (continued)

h. Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognized previously in equity is transferred to profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities, the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in equity.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

i. Employee benefits

Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to recognized provident funds and approved superannuation schemes which are defined contribution plans are recognized as an employee benefit expense in profit or loss when they are due.

3. Significant accounting policies (continued)

i. Employee benefits (continued)

Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of an approved gratuity plan, which is a defined benefit plan and certain other defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on risk free government bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognized asset is limited to the net total of any unrecognized past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

The Company recognizes actuarial gains and losses using the corridor method. Under this method, to the extent that any cumulative unrecognized actuarial gain or loss exceeds 10% of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognized in income over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognized.

Termination benefits

Termination benefits are recognized as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Compensated leave of absence

Eligible employees are entitled to accumulate compensated absences up to prescribed limits in accordance with the Company's policy and receive cash in lieu thereof. The Company measures the expected cost of accumulating compensated absences as the additional amount that the Company entities expect to pay as a result of the unused entitlement that has accumulated at the balance sheet date. Such measurement is based on actuarial valuation as at the balance sheet date carried out by a qualified actuary.

Share-based payment transactions

The grant date fair value of options granted to employees, calculated using the Black-Scholes model, is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees become

3. Significant accounting policies (continued)

i. Employee benefits (continued)

unconditionally entitled to the options. The increase in equity recognized in connection with a share based payment transaction is presented as a separate component in equity. The amount recognized as an expense is adjusted to reflect the actual number of share options that vest.

j. Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Restructuring

A provision for restructuring is recognized when the Company has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

k. Revenue

Sale of goods

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Revenue from the sale of goods includes excise duty and is measured at the fair value of the consideration received or receivable, net of returns, sales tax and applicable trade discounts and allowances.

Revenue from domestic sales of generic products is recognized upon delivery of products to stockists by clearing and forwarding agents of the Company. Revenue from domestic sales of active pharmaceutical ingredients and intermediates is recognized on delivery of products to customers, from the factories of the Company. Revenue from export sales is recognized when the significant risks and rewards of ownership of products are transferred to the customers, which is based upon the terms of the applicable contract.

Sales of generics in India are made through clearing and forwarding agents to stockists. Significant risks and rewards in respect of ownership of generic products are transferred by the Company when the goods are delivered to stockists from clearing and forwarding agents. Clearing and forwarding agents are generally compensated on a commission basis as a percentage of sales made by them.

Sales of active pharmaceutical ingredients and intermediates in India are made directly to the end customers generally, formulation manufacturers, from the factories of the Company. Significant risks and rewards in respect of ownership of active pharmaceutical ingredients are transferred by the company on delivery of the products to the customers. Sales of active pharmaceutical ingredients and intermediates outside India are made directly to the end customers, generally stockists or formulations manufacturers, from the parent company or its consolidated subsidiaries.

3. Significant accounting policies (continued)

k. Revenue (continued)

The Company has entered into marketing arrangements with certain marketing partners for sale of goods in certain overseas territories. Under such arrangements, the Company sells generic products to the marketing partners at a price agreed in the arrangement. Revenue is recognized on these transactions upon delivery of products to the marketing partners. An additional amount, representing profit share, is recognized as revenue, on the basis of ultimate net sale proceeds, only when realization is certain.

Provisions for chargeback, rebates, discounts and medicaid payments are estimated and provided for in the year of sales and recorded as reduction of revenue. A chargeback claim is a claim made by the wholesaler for the difference between the price at which the product is initially invoiced to the wholesaler and the net price at which it is agreed to be procured from the Company. Provision for such chargebacks are accrued and estimated based on historical average chargeback rate actually claimed over a period of time, current contract prices with wholesalers/other customers and average inventory holding by the wholesaler. Such provisions are disclosed as a reduction of trade receivable.

During the three months period ended September 30, 2008, the Company adjusted its estimate for chargeback and rebate accrual based on certain additional information regarding customer buying patterns and other market developments which resulted in a credit of U.S.\$10.7 million being recorded as revenues for the three months period ended September 30, 2008.

The Company accounts for sales returns by recording an accrual based on the Company's estimate of expected sales returns. The Company deals in various products and operates in various markets. Accordingly, the Company's estimate of sales returns is determined primarily by its experience in these markets. In respect of established products, the Company determines an estimate of sales returns accrual primarily based on historical experience of such sales returns. Additionally, other factors that the Company considers in determining the estimate include levels of inventory in the distribution channel, estimated shelf life, product discontinuances, price changes of competitive products, and introduction of competitive new products, to the extent each of these factors impact the Company's business and markets. The Company considers all these factors and adjusts the sales return accrual to reflect its actual experience. With respect to new products introduced by the Company, those are either extensions of an existing line of product or in a general therapeutic category where the Company has historical experience. The Company's new product launches have historically been in therapeutic categories where established products exist and are sold either by the Company or its competitors. The Company has not yet introduced products in a new therapeutic category where the sales returns experience of such products is not known. The amount of sales returns for the Company's newly launched products do not significantly differ from sales returns experience of current products marketed by the Company or its competitors (as the Company understands based on industry publications). Accordingly, the Company does not expect sales returns for new products to be significantly different from expected sales returns of current products. The Company evaluates sales returns of all its products at the end of each reporting period and records necessary adjustments, if any.

Services

Revenue from services rendered, which primarily relate to contract research, is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to cost incurred as a percentage of total expected cost.

License fees

Non-refundable milestone payments are recognized in the consolidated statement of operations as and when related services are rendered or agreed milestones are achieved in accordance with the terms of the license agreement, and when the Company has no future obligations or continuing involvement pursuant to such milestone payments.

Non-refundable up-front license fees are deferred and recognized when the milestones are earned, in proportion to the amount of each milestone earned bears to the total milestone payments agreed in the license agreement. Where the upfront license fees are a composite amount and cannot be attributed to a specific molecule, they are amortized over the development period. The milestone payments increase during the development period as the risk involved decreases. The agreed milestone payments reflect the progress of the development of the molecule and may not be spread evenly over the development period. Accordingly, the milestone payments are a fair representation of the extent of progress made in the development of these underlying molecules. In the event the development of a

molecule is discontinued, the corresponding amount of deferred revenue is recognized in the consolidated statement of operations in the period in which the project is terminated.

3. Significant accounting policies (continued)

k. Revenue (continued)

The Company has entered into certain dossier sales, licensing arrangements and supply arrangements that include certain performance obligations. Based on an evaluation of whether or not these obligations are inconsequential or perfunctory, the Company defers the upfront payments received under these arrangements. Such deferred revenue is recognized in the consolidated statement of operations in the period in which the Company completes remaining performance obligations.

Export entitlements

Export entitlements are recognized as income when the right to receive credit as per the terms of the scheme is established in respect of the exports made and where there is no significant uncertainty regarding the ultimate collection of the relevant export proceeds.

l. Finance income and expenses

Finance income is comprised of interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss.

Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Company's right to receive payment is established.

Finance expenses is comprised of interest expense on loans and borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. All borrowing costs are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

m. Income tax

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising upon the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend is recognized.

3. Significant accounting policies (continued)

n. Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which is comprised of share options granted to employees.

o. New standards and interpretations not yet adopted

A number of new standards and interpretations, and amendments to standards and interpretations, are not yet effective for the year ending March 31, 2009, and have not been applied in preparing these condensed consolidated interim financial statements:

Revised IAS 1, *Presentation of Financial Statements* (2007) becomes mandatory for the Company's consolidated financial statements for the year ending March 31, 2010 and is not expected to have any material impact on the presentation of the consolidated financial statements.

Revised IFRS 3, *Business Combinations* (2008) becomes mandatory for the Company's consolidated financial statements for the year ending March 31, 2011, and will be applied prospectively

Amended IAS 27, *Consolidated and Separate Financial Statements* (2008) becomes mandatory for the Company's consolidated financial statements for the year ending March 31, 2011, and will be applied prospectively

Amendment to IFRS 2, *Share-based Payment - Vesting Conditions and Cancellations* becomes mandatory for the Company's consolidated financial statements for the year ending March 31, 2010, with retrospective application. The Company is currently in the process of evaluating the potential impact of the revised standard on its consolidated financial statements.

Amendments to IAS 32, *Financial Instruments: Presentation* and IAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation* becomes mandatory for the Company's consolidated financial statements for the year ending March 31, 2010 and retrospective application is permitted. The adoption of this standard is not expected to have any material impact on the consolidated financial statements.

Revised IAS 23, *Borrowing Costs* becomes mandatory for the Company's consolidated financial statements for the year ending March 31, 2010. As the Company currently follows a policy of capitalizing borrowing costs, this new standard will have no impact on the Company's consolidated financial statements.

IFRIC 13, *Customer Loyalty Programmes* becomes mandatory for the Company's consolidated financial statements for the year ending March 31, 2010 and is not expected to have any impact on the consolidated financial statements.

IFRIC 14, *IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* becomes mandatory for the Company's consolidated financial statements for the year ending March 31, 2010 and is not expected to have any material impact on its consolidated financial statements.

Amendment to IAS 39, *Financial Instruments - Recognition and Measurement* becomes mandatory for the Company's consolidated financial statements for the year ending March 31, 2010. The Company is currently in the process of evaluating the potential impact of the revised standard on its consolidated financial statements.

3. Significant accounting policies (continued)

p. Standards early adopted

IFRS 8, *Operating Segments* introduces the management approach to segment reporting. IFRS 8 is mandatory for the Company's consolidated financial statements for the year ending March 31, 2010. IFRS 8 requires presentation and disclosure of segment information based on the internal reports regularly reviewed by the Company's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. The Company has early adopted IFRS 8 and presented segment information in respect of its operating segments in its unaudited condensed consolidated interim financial statements following management approach based on the internal reports regularly reviewed by the Company's Chief Operating Decision Maker.

4. Explanation of transition to IFRS

As stated in Note 2(a), these condensed consolidated interim financial statements form part of the period covered by the first IFRS annual consolidated financial statements prepared in accordance with IFRS. In preparing these financial statements, the Company has availed itself of certain exemptions and exceptions in accordance with IFRS 1.

a. Exemptions from retrospective application

Following are the exemptions which the Company has opted to apply or not to apply:

- i. **Business combinations exemption:** The Company has applied the exemption as provided in IFRS 1 on non-application of IFRS 3, *Business Combinations*, to business combinations consummated prior to April 1, 2007 (the Transition Date), pursuant to which goodwill arising from business combination has been stated at the carrying amount prior to the date of transition under Previous GAAP. The Company has also applied the exemption for past business combinations to acquisitions of investments in associates consummated prior to the Transition Date.
- ii. **Fair value as deemed cost exemption:** The Company has not elected to measure any item of property, plant and equipment at its fair value at the Transition Date; property, plant and equipment have been measured at cost in accordance with IFRS.
- iii. **Employee benefits exemption:** The Company has elected to apply the exemption as provided in IFRS 1 and recognized cumulative actuarial gains and losses as of the Transition Date as an adjustment to the opening retained earnings. The Company will apply the corridor approach in subsequent periods.
- iv. **Cumulative translation differences exemption:** The Company had accumulated the translation differences in a separate component of equity under Previous GAAP. Upon transition to IFRS, the treatment of recording translation differences in equity did not undergo any change and consequently the optional exemption of setting cumulative differences as zero and reclassifying the amount recognized in accordance with Previous GAAP as retained earnings as at the Transition Date was not required to be applied.
- v. **Compound financial instruments:** The Company did not have any compound financial instrument as of the Transition Date. Consequently, upon adoption of IFRS the optional exemption allowed of non-segregation of the liability component if such component was no longer outstanding on the Transition Date is not applicable to the Company.
- vi. **Assets and liabilities of subsidiaries, associates and joint ventures exemption:** All entities of the Company are transitioning to IFRS on the same date. Consequently, this exemption is not applicable to the Company.
- vii. **Share-based payment transaction exemption:** Under Previous GAAP, the Company had applied the fair value recognition and measurement principles similar to those prescribed under IFRS 2 for all options granted before the Transition Date. Consequently, upon transition to IFRS, the optional exemption is not applicable to the Company.

- viii. **Fair value measurement of financial assets or liabilities at initial recognition:** The Company has not applied the amendment offered by the revision of IAS 39, *Financial Instruments: Recognition and Measurement*, upon the initial recognition of the financial instruments measured at fair value through the income statement where there is no active market.

4. Explanation of transition to IFRS (continued)

a. Exemptions from retrospective application (continued)

- ix. **Designation of financial assets and financial liabilities exemption:** The Company did not have any financial assets or liabilities as of the Transition Date which were required to be designated and which met the required criteria given in IFRS 1 as a financial asset or financial liability at fair value through profit or loss.
- x. **Changes in decommissioning liabilities included in the cost of property, plant and equipment exemption:** The Company does not have any material decommissioning liabilities in the cost of property, plant and equipment. Consequently, this exception is not applicable to the Company.
- xi. **Leases exemption:** The Company has no arrangements containing a lease as defined under IFRIC 4, *Determining whether an arrangement contains a lease* . Consequently, this exemption is not applicable to the Company.
- xii. **Financial asset or an intangible asset accounted for in accordance with IFRIC 12, Service Concession Arrangements exemption:** The Company has no arrangements which would be classified as service concession arrangements as defined under IFRIC 12, *Service Concession Arrangements* . Consequently, this exemption is not applicable to the Company.
- xiii. **Insurance contracts:** The Company does not issue any insurance contracts. Consequently, this exemption is not applicable to the Company.

b. Exceptions from full retrospective application

- i. **Derecognition of financial assets and liabilities exception:** Financial assets and liabilities derecognized before January 1, 2004 are not re-recognized under IFRS. No arrangements were identified that had to be assessed under this exception.
- ii. **Hedge accounting exception:** The Company has not identified any hedging relationships existing as of the Transition Date. Consequently, this exception of not reflecting in its opening IFRS statement of financial position a hedging relationship of a type that does not qualify for hedge accounting under IAS 39 is not applicable to the Company.
- iii. **Estimates exception:** Upon an assessment of the estimates made under Previous GAAP, the Company has concluded that there was no necessity to revise such estimates under IFRS except as a part of transition where estimates were required by IFRS and not required by Previous GAAP or where estimates made under Previous GAAP were to be revised to comply with IFRS, but such estimates reflected the conditions as at the Transition Date.
- iv. **Assets classified as held for sale and discontinued operations:** The Company has not classified any asset as held for sale and therefore this exception is not applicable.

c. Reconciliation

The accounting policies as stated above have been applied in preparing the condensed consolidated interim financial statements for the three and six months ended September 30, 2008, the comparative information for the three and six months ended September 30, 2007, the consolidated financial statements for the year ended March 31, 2008 and the preparation of an opening IFRS balance sheet at April 1, 2007. In preparing its opening IFRS balance sheet, comparative information for the three and six months ended September 30, 2007 and financial statements for the year ended March 31, 2008, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Previous GAAP.

An explanation of how the transition from Previous GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the Notes that accompany the tables.

4. Explanation of transition to IFRS (continued)**c. Reconciliation (continued)****i. Reconciliation of equity**

	Notes	April 1, 2007	As at September 30, 2007	March 31, 2008
Total equity under Previous GAAP		Rs. 41,578,228	Rs. 45,358,784	Rs. 47,066,584
Impairment impact on intangibles	A	621,311	621,311	99,315
Amortization reversal on intangibles impaired	A		8,236	26,472
Employee benefits	B	(25,573)	(66,468)	16,413
Fringe benefit tax on employee stock options	D		(68,823)	(52,946)
Tax adjustments	E	453,957	163,732	169,508
Foreign exchange rate impact on above adjustments			9,773	25,468
Equity under IFRS before reclassification of minority interest		42,627,923	46,026,545	47,350,814
Minority interest	F	10,473	6,353	
Total equity under IFRS		Rs. 42,638,396	Rs. 46,032,898	Rs. 47,350,814

ii. Reconciliation of profit for the period

	Notes	For three months ended September 30, 2007	For six months ended September 30, 2007	For the year ended March 31, 2008
Profit under Previous GAAP		Rs. 2,671,641	Rs. 4,496,710	Rs. 4,678,042
Impairment impact on intangibles	A			(521,996)
Amortization reversed on intangibles impaired	A	4,166	8,236	26,472
Employee benefits	B	5,662	(36,750)	(18,693)
Cash flow hedge related adjustments	C			(25,490)
Fringe benefit tax on employee stock options	D	(7,672)	(68,823)	(52,946)
Tax adjustments	E	(149,983)	(290,225)	(257,015)
Minority interest	F	(1,097)	(4,120)	(10,473)
Foreign exchange rate impact on above adjustments		4,043	18,375	18,372
Profit under IFRS		Rs. 2,526,760	Rs. 4,123,403	Rs. 3,836,273

iii. Notes to reconciliation**A. Impairment**

Under Previous GAAP, impairment testing for an amortizable asset is a two step process. First, it is tested for impairment by comparing the undiscounted future cash flow projections with the carrying value of the asset. If upon

comparison, the carrying value exceeds the undiscounted cash flows then, under the second step, an impairment charge is recognized for the difference between carrying amount of the asset and the fair value thereof computed using a discounted cash flow approach. Under IFRS, there is only a one step process, wherein impairment is tested and recognized if upon comparison, the carrying value of the asset exceeds the discounted cash flows. The differential approach resulted in additional impairment being recorded.

Furthermore, under Previous GAAP, a non-amortizable asset was tested for impairment at the asset level, whereas under IFRS the impairment testing was done at a higher cash generating unit level, as it did not generate identifiable cash inflows independent from other assets. Impairment testing at such higher cash generating unit level under IFRS did not indicate any impairment and accordingly, there was a reversal of impairment charge with respect to such non-amortizable assets.

The aforesaid differences have resulted in an increase in equity under IFRS by Rs.621,311, Rs.621,311 and Rs.99,315 as of April 1, 2007, September 30, 2007 and March 31, 2008 respectively, and an additional impairment and a decrease in profit under IFRS by Rs.521,996 for the year ended March 31, 2008.

Furthermore, the consequential amortization impact of subsequent periods has been reversed. The impact of reversal of amortization resulted in an increase in equity under IFRS by Rs.8,236 and Rs.26,472 as of September 30, 2007 and March 31, 2008, respectively, and an increase in profit by Rs.4,166, Rs.8,236 and Rs.26,472 for the three months ended September 30, 2007, the six months ended September 30, 2007 and the year ended March 31, 2008, respectively.

4. Explanation of transition to IFRS (continued)**c. Reconciliation (continued)****B. Employee benefits**

Under Previous GAAP, in determining the liability in respect of employment benefits, the Company used discounting rates which were based on high-quality fixed-income investments prevalent at the reporting date. Under IFRS, the Company is required to use high quality corporate bond rates or, in the absence of a deep market for such bonds, the government bond rate is required to be used. The Company has used the government bond rates for actuarially valuing its defined benefit obligations, which resulted in an increase in the liability and consequently, the net period benefit cost in each of the reporting periods.

Furthermore, until April 1, 2007, the Company used the corridor approach to record actuarial gains and losses under Previous GAAP. Upon adoption of IFRS, the Company elected to recognize all cumulative actuarial gains and losses in respect of defined benefit plans at April 1, 2007 (the date of transition) as an adjustment to opening retained earnings and has set the corridor to zero. Also, under Previous GAAP, the Company had recorded actuarial gains and losses as part of equity, which is not required under IFRS, thereby resulting in a reduced liability in the books with a corresponding positive impact on equity.

The aforesaid differences have resulted in a decrease in equity under IFRS by Rs.25,573 and Rs.66,468 as of April 1, 2007 and September 30, 2007, respectively, and an increase in equity under IFRS by Rs.16,413 as of March 31, 2008. Consequently, it also resulted in an increase of profit under IFRS by Rs.5,662 for the three months ended September 30, 2007, and a decrease of profit under IFRS by Rs.36,750 and Rs.18,693 for the six months ended September 30, 2007 and the year ended March 31, 2008, respectively.

C. Hedge accounting

Under Previous GAAP, for certain hedge relationships where the hedging instrument is an option, a terminal value approach to the assessment of effectiveness and measurement of ineffectiveness was adopted as permitted by Derivatives Implementation Group (DIG) Issue G20. Under IFRS, in the absence of any specific guidance that permits entities to adopt a terminal value approach for such relationships, hedge effectiveness is measured on the basis of intrinsic value and time value changes are excluded from these qualifying hedge relationships. Accordingly, for certain hedging relationships which were accounted as a cash flow hedge under Previous GAAP, the requirement of hedge accounting for the risk previously designated as the hedged risk are no longer met. Accordingly, under IFRS the fair value changes on certain options contracts are recognized in the income statement as compared to being recognized in equity under Previous GAAP.

The aforesaid differences have resulted in a decrease of profit under IFRS by Rs.25,490 for the year ended March 31, 2008.

D. Fringe benefit tax on employee share based payments

Indian tax regulations require the Company to pay a Fringe Benefit Tax upon the exercise of employee stock options. Under Previous GAAP, Fringe Benefit Tax is accrued upon exercise of stock options. Under IFRS such Fringe Benefit Tax, if not recovered from employees, is accrued over the vesting period of the stock options. In the event, the Company decides to recover the related Fringe Benefit Tax from the employees exercising such options, a reimbursement asset is recognized in the same period which offsets the accrual for Fringe Benefit Tax.

The aforesaid differences have resulted in a decrease in equity under IFRS by Rs.68,822 and Rs.52,946 as of September 30, 2007 and March 31, 2008, respectively, and a decrease of profit under IFRS by Rs.7,672, Rs.68,822 and Rs.52,946 for the three months ended September 30, 2007, the six months ended September 30, 2007 and the year ended March 31, 2008, respectively.

E. Tax adjustments

Intra-group transactions are eliminated upon consolidation. Under Previous GAAP, income taxes paid by the seller on intra-group profits in respect of assets that remain within the consolidated group, including the tax effect of any reversing temporary differences in the seller's tax jurisdiction, are deferred. The amount is recognized in other assets or liabilities in the balance sheet until such time as the asset leaves the consolidated group, at which point the amount

4. Explanation of transition to IFRS (continued)

c. Reconciliation (continued)

is reclassified to income tax expense. Under IFRS, any related deferred tax effects are measured based upon the tax rate of the purchaser. However, the tax effects are not eliminated unless the transacting entities are subject to the same tax rate.

Furthermore, the income tax expense recognized in each interim period under Previous GAAP is based on the best estimate of the weighted average effective income tax rate expected for the annual reporting period applied to the pre-tax income of the interim period. Under Previous GAAP, a consolidated Annual Effective Tax Rate is arrived at based upon projected tax expense and profit before taxes for each of the tax jurisdictions and then such consolidated Annual Effective Tax Rate is applied to consolidated profits for the quarter. Under IFRS, if different income tax rates apply to different tax jurisdictions, income tax expense is computed by applying the projected Annual Effective Tax Rate for each of the jurisdictions on the pre-tax income of the interim period for each of such jurisdictions respectively.

The above differences in IFRS as compared to Previous GAAP, along with the tax impact of the adjustments as discussed above, have resulted in an increase in equity by Rs.453,957, Rs.163,732 and Rs.169,508 as of April 1, 2007, September 30, 2007 and March 31, 2008, respectively, and a decrease in profit by Rs.149,983, Rs.290,225 and Rs.257,015 for the three months ended September 30, 2007, the six months ended September 30, 2007 and the year ended March 31, 2008, respectively.

F. Change in presentation of minority interest

Under IFRS, minority interest is reported as a separate item within equity. Previous GAAP requires minority interest to be presented separately from equity. Under IFRS, the minority's share of net income is presented as an allocation of net income, whereas, under Previous GAAP, the minority's share of net income is considered in determining net income.

The aforesaid differences have resulted in an increase of equity under IFRS by Rs.10,473 and Rs.6,353 as of April 1, 2007 and September 30, 2007, respectively, and a decrease of profit under IFRS by Rs.1,097, Rs.4,120 and Rs.10,473 for the three months ended September 30, 2007, the six months ended September 30, 2007 and the year ended March 31, 2008, respectively.

iv. Explanation of material adjustments to the cash flow statement

Unlike Previous GAAP, under IFRS while bank overdrafts are disclosed as part of borrowings in the balance sheet, the same are reduced from cash and cash equivalents in preparation of the cash flows if they are repayable on demand and form an integral part of the Company's cash management. There were bank overdrafts of Rs.526,030 as at April 1, 2007, Rs.452,066 as at September 30, 2007 and Rs.434,928 as at March 31, 2008 that were repayable on demand, and which formed an integral part of the Company's cash management and were not considered as a reduction in cash and cash equivalents. Accordingly the movement in such balances was classified as financing cash flows under Previous GAAP. These have now been reclassified under cash and cash equivalents under IFRS for the preparation of cash flow statements.

In addition, restricted cash of Rs.606,159 as at April 1, 2007, Rs.19,972 as at September 30, 2007 and Rs.23,156 as at March 31, 2008 was not considered as cash and cash equivalents for the preparation of cash flow statements. Accordingly, movement in such balances was classified as investing cash flows under Previous GAAP. These have now been reclassified as cash and cash equivalents under IFRS.

Furthermore, interest paid of Rs.532,260 and interest received of Rs.476,757 for the six months ended September 30, 2007 was classified as operating cash flows under Previous GAAP and has been reclassified as financing and investing cash flows, respectively, under IFRS. There were no other material differences between the cash flow statement presented under IFRS and the cash flow statement presented under Previous GAAP.

5. 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 operating segments reviewed by the CODM are as follows:

Pharmaceutical Services and Active Ingredients (PSAI);

Global Generics; and

Proprietary Products

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

Global Generics. This segment consists of finished pharmaceutical products ready for consumption by the patient, marketed under a brand name (branded formulations) or as generic finished dosages with therapeutic equivalence to branded formulations (generics). The Company is transitioning to a new organization structure for this segment. While the resource allocation is done by the CODM at the global generics level, certain additional information (revenue and gross profit) with respect to the Company s formulations and generics business continues to be reviewed by the CODM. Accordingly, such further detailed information has also been included in this segment s disclosure.

Proprietary Products. This segment involves the discovery of new chemical entities for subsequent commercialization and out-licensing. It also involves the Company s specialty pharmaceuticals business which is positioning to launch sales and marketing operations for in-licensed and co-developed dermatology products. The CODM reviews gross profit as the performance indicator for all three of the above segments. The Company does not review the total assets and liabilities for each segment. The property, plant and equipment used in the Company s business, and the related depreciation and amortization expenses, are not fully identifiable with or allocable to individual reportable segments, as certain assets are used interchangeably between segments. The other assets are not specifically allocable to the segments. Consequently, management believes that it is not practicable to provide segment disclosures relating to total assets and liabilities since allocation among the various segments is not possible.

5. Segment reporting (continued)

Items:	For the six months ended September 30,								
	PSAI		Global Generics*		Proprietary Products		Others		
	2008	2007	2008	2007	2008	2007	2008	2007	
1)	Rs. 9,441,034	Rs. 8,034,613	Rs. 21,398,999	Rs. 16,175,874	Rs. 86,668	Rs. 101,693	Rs. 262,072	Rs. 122,090	Rs. 31,18
	Rs. 2,921,017	Rs. 2,824,269	Rs. 12,388,172	Rs. 9,538,686	Rs. 57,518	Rs. 53,806	Rs. 91,156	Rs. (66,372)	Rs. 15,4
ent									10,3
net									1,8
									32
									2,8
e), net									(40
equity									
of									
x									2,4
ense)									(3
									Rs. 2,10

Note 1: Segment revenue for the six months ended September 30, 2008 does not include inter-segment revenues from PSAI to Global Generics which is accounted for at a cost of Rs.1,250,345 (as compared to Rs.1,196,760 for the six months ended September 30, 2007) and inter-segment revenues from Global Generics to PSAI which is accounted for at a cost of Rs.4,437 (as compared to Rs.21,905 for the six months ended September 30, 2007).

*Global Generics consists of:

Segments	Formulations		Generics		Global generics	
	2008	2007	2008	2007	2008	2007
Segment revenue (Note 2)	Rs. 9,122,077	Rs. 7,866,670	Rs. 12,276,922	Rs. 8,309,204	Rs. 21,398,999	Rs. 16,175,874
Gross Profit	Rs. 6,718,773	Rs. 5,688,599	Rs. 5,669,399	Rs. 3,850,087	Rs. 12,388,172	Rs. 9,538,686

Note 2: Segment revenue for the six months ended September 30, 2008 does not include inter-segment revenues from Formulations to PSAI which is accounted for at a cost of Rs.4,437 (as compared to Rs.21,905 for the six months ended September 30, 2007)

5. Segment reporting (continued)

Segment	For the three months ended September 30,									
	PSAI		Global Generics**		Proprietary Products		Others			
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Note 3)	Rs. 4,827,748	Rs. 4,400,295	Rs. 11,112,060	Rs. 7,947,678	Rs. 48,185	Rs. 49,239	Rs. 162,977	Rs. 54,001	Rs. 16,150,	Rs. 16,150,
	Rs. 1,421,799	Rs. 1,579,934	Rs. 6,446,357	Rs. 4,660,376	Rs. 26,685	Rs. 20,644	Rs. 68,685	Rs. 20,558	Rs. 7,963,	Rs. 7,963,
es										5,285,
oment										824,
ne), net										87,
ing										1,765,
ense),										(482,
of										1,
estees,										
e tax										1,284,
xpense)										(232,
										Rs. 1,052,

Note 3: Segment revenue for the three months ended September 30, 2008 does not include inter-segment revenues from PSAI to Global Generics which is accounted for at a cost of Rs.665,795 (as compared to Rs.736,603 for the three months ended September 30, 2007) and inter-segment revenues from Global Generics to PSAI which is accounted for at cost of Rs.0 (as compared to Rs.21,905 for the three months ended September 30, 2007).

**Global generics consists of:

Segments	Formulations		Generics		Global generics	
	2008	2007	2008	2007	2008	2007
Segment revenue (Note 4)	Rs. 4,632,861	Rs. 3,815,475	Rs. 6,479,199	Rs. 4,132,203	Rs. 11,112,060	Rs. 7,947,678
Gross profit	Rs. 3,424,652	Rs. 2,782,545	Rs. 3,021,705	Rs. 1,877,831	Rs. 6,446,357	Rs. 4,660,376

Note 4: Segment revenue for the three months ended September 30, 2008 does not include inter-segment revenues from formulations to PSAI which is accounted for at a cost of Rs.0 (as compared to Rs.21,905 for the three months ended September 30, 2007).

6. Business combinations and other acquisitions

a. Acquisition of a unit of The Dow Chemical Company

On April 28, 2008, the Company, through its wholly owned subsidiary Dr. Reddy's Laboratories (EU) Limited (DRL EU), acquired a unit of The Dow Chemical Company associated with its United Kingdom sites in Mirfield and Cambridge for a total cash consideration of Rs.1,301,899 (U.S.\$32,137). The acquisition includes customer contracts, associated products, process technology, intellectual property, trademarks and the Dowpharma Small Molecules facilities located in Mirfield and Cambridge, United Kingdom. The Company also took over the existing work force as a part of the acquisition. The acquisition complements technology and experience synergies to the Company's existing custom pharmaceutical business and gives access to a research and development team.

The Company has accounted for the acquisition under the purchase method in accordance with IFRS No. 3, *Business Combinations*. Accordingly, the financial results of the aforesaid acquired business for the period from April 29, 2008 through September 30, 2008 have been included in the unaudited condensed consolidated interim financial statements of the Company.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

Particulars	Recognized values on acquisition
Property, plant and equipment	Rs. 740,704
Intangible assets	800,883
Inventories	230,707
Non-current assets	45,923
Non-current liabilities	(115,565)
Deferred tax liabilities, net	(250,350)
Net identifiable assets and liabilities	Rs. 1,452,302
Negative goodwill on acquisition recognized in profit and loss account	(150,403)
Consideration paid in cash*	Rs. 1,301,899

* Total consideration paid includes direct attributable costs of Rs.12,537 (U.S.\$309).

As the acquisition involved a combination of a purchase of a unit of an existing entity and purchase of certain identifiable assets, the carrying value of assets and liabilities before acquisition could not be determined in accordance with IFRS.

The estimated useful lives of intangibles acquired are as follows:

Customer related intangibles	4-11 years
Product related intangibles	6-13 years

The negative goodwill on acquisition is attributable mainly to lower amounts paid towards inventories and intangible assets in the acquired business. The acquired business contributed revenues of Rs.297,894 and profit of Rs.39,976 for

the three months ended September 30, 2008 and revenue of Rs.455,425 and, including negative goodwill, a profit of Rs.98,682 for the period from April 29, 2008 to September 30, 2008.

6. Business combinations and other acquisitions (continued)**b. Acquisition of BASF Corporation's manufacturing facility in Shreveport, Louisiana, U.S.A. and related pharmaceutical contract manufacturing business.**

On April 30, 2008, the Company acquired BASF Corporation's pharmaceutical contract manufacturing business and its manufacturing facility in Shreveport, Louisiana, U.S.A. for a total cash consideration of Rs.1,639,276 (U.S.\$40,466). The business involves contract manufacturing of generic prescription and over the counter products for branded and generic companies in the United States. This acquired business includes customer contracts, related ANDAs and NDAs, and trademarks, as well as the Shreveport manufacturing facility. The Company also took over the existing work force as a part of the acquisition.

The Company has accounted for the acquisition under the purchase method in accordance with IFRS No. 3, Business Combinations. Accordingly, the financial results of the aforesaid acquired business for the period from May 1, 2008 through September 30, 2008 have been included in the unaudited condensed consolidated interim financial statements of the Company.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Particulars	Recognized values on acquisition
Property, plant and equipment	Rs. 755,607
Intangible assets	482,068
Inventories	248,198
Net identifiable assets and liabilities	Rs. 1,485,873
Goodwill on acquisition	153,403
Consideration paid, satisfied in cash*	Rs. 1,639,276

* Total consideration paid includes direct attributable costs of Rs.30,858 (U.S.\$762).

As the acquisition involved the purchase of a unit of an existing entity with certain identifiable assets and liabilities, the carrying value of assets and liabilities before acquisition could not be determined in accordance with IFRs.

The estimated useful lives of intangibles acquired are as follows:

Customer related intangibles	4-9 years
Product related intangibles	9-10 years

Goodwill amounts to Rs.153,403 and is attributable mainly to the employee workforce acquired and the estimated values to be derived from the synergies for the Company due to cost savings. The acquired business contributed revenues of Rs.428,006 and net loss of Rs.94,870 for the three months ended September 30, 2008 and revenue of Rs.741,647 and net loss of Rs.92,436 for the period from May 1, 2008 to September 30, 2008.

c. Acquisition of Jet Generici SRL

On April 30, 2008, the Company acquired Jet Generici Srl, a company engaged in the sale of generic finished dosages in Italy for a total cash consideration of Rs.147,887 (Euro 2.34 million). The transaction was accounted as an acquisition of business under the purchase method in accordance with IFRS 3. The transaction resulted in the Company gaining an entry in the Italian market and resulted in goodwill of Rs.162,356.

6. Business combinations and other acquisitions (continued)**d. Proforma information**

If the above acquisitions had taken effect at the beginning of the reporting period (i.e., April 1, 2007), on a pro-forma basis the revenue, profit before tax and profit after tax of the Company for the applicable periods on a pro-forma basis would have been as below:

	Six months ended September 30,	
	2008	2007
Revenue	Rs. 31,333,279	Rs. 25,808,340
Profit before tax	2,412,082	3,534,500
Profit after tax	2,125,594	4,261,306

e. Acquisition of entire equity holding of Perlecan Pharma Private Limited

In September 2005, the Company announced the formation of an integrated drug development company, Perlecan Pharma Private Limited (Perlecan Pharma), as a joint venture with Citigroup Venture Capital International Growth Partnership Mauritius Limited (Citigroup Venture) and ICICI Venture Funds Management Company (ICICI Venture). Perlecan Pharma is engaged in the clinical development and out-licensing of New Chemical Entity (NCE) assets. Under the terms of the joint venture agreement, Citigroup Venture and ICICI Venture each committed to contribute Rs.1,003,725 (U.S.\$22,500) and the Company committed to contribute Rs.340,000 (U.S.\$7,500) towards equity in Perlecan Pharma. The arrangement to form Perlecan Pharma was effective from March 27, 2006 (before the date of transition to IFRS).

As of March 31, 2006, the Company owned approximately 14.28% of the equity of Perlecan Pharma. In addition, Perlecan Pharma issued warrants to the Company to purchase 45 million equity shares of Perlecan Pharma, at an exercise price of Rs.1.00 per equity share, the exercise of which was contingent upon the success of certain research and development milestones achieved by Perlecan Pharma. Upon full exercise of the warrants, the Company would own approximately 62.5% of the equity of Perlecan Pharma. Furthermore, three out of seven directors on the Board of Directors of Perlecan Pharma were designated by the Company. As per the terms of the joint venture agreement, the Company had the first right to conduct product development and clinical trials on behalf of Perlecan Pharma on an arms length basis subject to the final decision by the Board of Directors of Perlecan Pharma. Considering these factors, the Company has accounted for its investment in Perlecan Pharma in accordance with IAS 28, *Investments in Associates* .

As of March 31, 2006, the Company and the other two investors had invested Rs.100,800 (U.S.\$2,259) and Rs.604,900 (U.S.\$13,559), respectively, in Perlecan Pharma. The Company was also committed to invest an additional amount of Rs.239,200 (U.S.\$5,241) as its proportionate equity contribution in the future. As per the terms of the amended joint venture agreement, the Company was to be reimbursed by Perlecan Pharma for research and development costs of Rs.231,023 that were incurred by the Company prior to the effective date of the agreement. The reimbursement for research and development costs incurred by the Company prior to the effective date of the agreement was reduced from the carrying value of the equity investment in Perlecan Pharma as of March 31, 2006. Therefore, the equity investment was carried at Rs.0 and the remaining balance of the Company's commitment to make additional equity investments in Perlecan Pharma was Rs.170,223, recognized as other liability as of March 31, 2006. During the year ended March 31, 2007, the Company and the other two investors invested additional amounts of Rs.69,200 and Rs.412,700, respectively, in Perlecan Pharma. As a result, as of March 31, 2007, the Company's ownership of Perlecan Pharma increased to approximately 14.31%. As of March 31, 2008, the carrying value of the Company's investment in Perlecan Pharma was Rs.0, the other liability balance was Rs.179,589 and the Company was committed to make additional equity investments of Rs.170,000. The Company continued to reflect its equity in losses of Perlecan Pharma taking into account its future funding commitments.

On July 30, 2008, the Company acquired the entire equity holding of Citigroup Venture and ICICI Venture in Perlecan Pharma for a total consideration of Rs.757,802. Consequently, Perlecan Pharma has become a consolidated

subsidiary of the Company. The Company has evaluated the acquisition in accordance with IFRS 3, *Business Combinations*, and believes that the acquired set of assets does not qualify to be a business and therefore has accounted for this as an asset acquisition.

Accordingly, the purchase price has been allocated to the following assets:

Particulars	Recognized values on acquisition
Current assets, net	Rs. 408,035
Intangible assets	81,604
Deferred tax asset	268,163
Total consideration paid	Rs. 757,802

As a result of the acquisition, other liability of Rs.179,589, representing the deferred credit at the time of the initial joint venture arrangement, was recognized in the income statement as a credit to research and development expenses in the three months and six months ended September 30, 2008.

7. Financial instruments

Hedging of fluctuations in foreign currency

The Company is exposed to exchange rate risk which arises from its foreign exchange revenues, primarily in U.S. Dollars, British Pounds and Euros and foreign currency debt in U.S. Dollars and Euros.

The Company uses forward exchange contracts and option contracts (derivatives) to mitigate its risk of changes in foreign currency exchange rates. Most of the forward exchange contracts/option contracts have maturities of less than one year after the balance sheet date. Where necessary, the forward exchange contracts are rolled over at maturity.

Forecasted transactions

The Company classifies its option contracts hedging forecasted transactions as cash flow hedges and measures them at fair value. The fair value of option contracts used as hedges of forecasted transactions at September 30, 2008 was a liability of Rs.913,892 (as compared to a liability of Rs.10,064 at March 31, 2008), that were recognized as derivatives measured at fair value.

Recognized assets and liabilities

Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognized in profit or loss. Both the changes in fair value of the forward contracts and the foreign exchange gains and losses relating to the monetary items are recognized as part of net financing costs. The fair value of forward exchange contracts and option contracts used as economic hedges of monetary assets and liabilities in foreign currencies recognized in fair value derivatives was a liability of Rs.58,062 at September 30, 2008 (as compared to a liability of Rs.85,982 at March 31, 2008).

Fair values

The carrying amount and fair value of financial instruments at September 30, 2008 is a net liability of Rs.19,732,982 (as compared to a net liability of Rs.10,647,534 at March 31, 2008).

8. Income taxes*Current tax*

Current tax expense for the interim periods is calculated based on the estimated average annual income tax applied on the pre tax income of the interim period.

Current tax for current and prior periods is classified as current liability to the extent that it is unpaid. Amounts paid in excess of amounts owed are classified as a current asset.

Deferred tax

The amount of deferred tax provided is based on the expected movements of realization or settlement of the carrying amount of assets and liabilities, using the effective tax rate of the interim periods presented.

The primary components of the Company's recognized deferred tax asset includes temporary differences related to expenses deferred for the tax purposes, operating and capital losses carried forward, provisions and minimum alternate tax carry forward. The primary components of the Company's deferred tax liabilities include temporary differences related to property, plant, equipment and intangible assets. Deferred tax expenses or benefits arise from the origination and reversal of temporary differences, the effect of change in tax rates and the benefit of tax losses recognized.

Current tax and deferred tax recognized in the Company's income statement are as follows:

	Six months ended		Three months ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Current tax expense	Rs. 599,030	Rs. 130,192	Rs. 190,095	Rs. 102,940
Deferred tax expense/(benefit)	(282,886)	(906,978)	42,203	(1,201,442)
Income tax expense/(benefit)	Rs. 316,144	Rs. (776,786)	Rs. 232,298	Rs. (1,098,502)

Total deferred tax recognized directly in the equity was a benefit of Rs.148,666 for the six months ended September 30, 2008 (as compared to an expense of Rs.18,087 for the six months ended September 30, 2007).

Reconciliation of effective tax rate

The reported income tax expense for the six months ended September 30, 2008 was calculated based on an estimated average annual income tax rate of 12.75%. For the six months ended September 30, 2007, the reported income tax expense was calculated based on an estimated average annual net income tax rate of negative 23.21%. The difference between the estimated average annual effective income tax rate and the enacted tax rate is accounted for by a number of factors, including the effects of changes in tax laws and rates, the effects of differences between Indian and foreign tax rates, expenses not deductible for tax purposes, income exempted from income taxes, and the effects of minimum alternate taxes. During the three months ended September 30, 2007, pursuant to changes in German tax laws, the enacted tax rate decreased by approximately 8%. This resulted in a reduction in the net deferred tax liability balance of betapharm by Rs.1,458.8 million, which was recorded as a deferred tax benefit in the Company's income statement during the three months and six months ended September 30, 2007.

9. Property, plant and equipment*Acquisitions and disposals*

During the six months ended September 30, 2008, the Company acquired assets with an aggregate cost of Rs.4,179,076 (as compared to assets with a cost of Rs.6,231,125 for the year ended March 31, 2008), including assets acquired through business combinations of Rs.1,496,374 (no assets were acquired through business combinations for the year ended March 31, 2008). Assets with a net book value of Rs.11,054 were disposed of during the six months ended September 30, 2008 (as compared to assets with a net book value of Rs.62,661 for the year ended March 31, 2008), resulting in a gain on disposal of Rs.12,516 (as compared to a loss on disposal of Rs.7,629 for the year ended March 31, 2008). Depreciation expenses for the three months and six months ended September 30, 2008 amounted to Rs.525,655 and Rs.1,081,911, respectively (as compared to Rs.410,149 and Rs.803,303, respectively, for the three months and six months ended September 30, 2007).

Capital Commitments

As of March 31, 2008 and September 30, 2008, the Company was committed to spend approximately Rs.1,552,426 and Rs.1,463,833, respectively, under agreements to purchase property, plant and equipment. This amount is net of capital advances paid in respect of such purchases.

10. Goodwill

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

The following table presents the changes in goodwill during the six months ended September 30, 2008 and the year ended March 31, 2008:

	Six months ended September 30, 2008	Year ended March 31, 2008
Opening balance ⁽¹⁾	Rs. 17,179,231	Rs. 15,947,898
Goodwill arising on purchase business combination	315,759	
Impairment of goodwill ⁽²⁾		(90,437)
Effect of translation adjustments	982,814	1,321,770
Closing balance ⁽¹⁾	Rs. 18,477,804	Rs. 17,179,231

(1) Includes goodwill arising upon investment in affiliate of Rs.181,943.

(2) The impairment of goodwill of Rs.90,437 relates to the Company's proprietary products segment.

11. Other intangible assets*Acquisitions and Write-down of intangibles*

During the six months ended September, 30 2008, the Company acquired other intangible assets with an aggregate cost of Rs.1,636,539 (as compared to assets with a cost of Rs.211,377 for the year ended March 31, 2008), including assets acquired through business combinations of Rs.1,312,303 (no assets were acquired through business combinations for the year ended March 31, 2008). Amortization expenses for the three months and six months ended September 30, 2008 was Rs.471,777 and Rs.848,411, respectively (as compared to amortization expense of Rs.405,645 and Rs.752,283, respectively, for the three months and six months ended September 30, 2007).

During the year ended March 31, 2008, the Company tested the carrying value of betapharm related intangibles for impairment. This testing was triggered by certain adverse market conditions, such as decreases in market prices and an increasing trend in certain new type of rebates being negotiated with State Healthcare Insurance Fund (SHI) companies and certain supply constraints. As a result of this review, the Company recorded a write-down of intangible assets of Rs.2,883,005 and adjusted the net carrying value of certain product related intangibles as of March 31, 2008. Furthermore, during the year ended March 31, 2008, the Company also tested the carrying value of Litaphar related intangibles for impairment. This testing was triggered by certain adverse market conditions, such as decreases in sales and increases in costs of procurement. The fair values of these intangibles were determined based on discounted cash flow approach. As a result of this review, the Company recorded a write-down of intangible assets of Rs.127,506 and adjusted the net carrying value of product related intangibles as of March 31, 2008.

12. Inventories

Inventories