DR REDDYS LABORATORIES LTD
Form 6-K
December 13, 2010

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13A-16 OR 15D-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934
For the Quarter Ended June 30, 2010
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 þ Form 40-F o

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): o

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): o

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 o No þ

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

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QUARTERLY REPORT
Quarter Ended June 30, 2010

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 Un States and references to Rs. or rupees or Indian rupees are to the legal currency of India. Our unaudited condensed consolidated interim financial statements are presented in Indian rupees and are prepared and presented in accordance with International Accounting Standard 34, *Interim Financial Reporting* (IAS 34). 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. All references to IAS are to the International Accounting Standards, to IASB are to the International Accounting Standards Board, to IFRS are to International Financial Reporting Standards, to SIC are to Standing Interpretations Committee and to IFRIC are to the International Financial Reporting Interpretations Committee.

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

References to U.S. or United States are to the United States of America, its territories and its possessions. References to India are to the Republic of India. All references to we, us, our, DRL, Dr. Reddy s or the Company Dr. Reddy s Laboratories Limited and its subsidiaries. Dr. Reddy s is a registered trademark of Dr. Reddy s Laboratories Limited in India. Other trademarks or trade names used in this Quarterly Report are trademarks registered in the name of Dr. Reddy s Laboratories Limited or are pending before the respective trademark registries.

Except as otherwise stated in this report, all translations from Indian rupees to U.S. dollars are based on the noon buying rate in the City of New York on June 30, 2010 for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York, which was Rs.46.41 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 STATEMENT OF FINANCIAL POSITION
(in millions, except share and per share data)

Particulars	Note	June 30, 2010 *Unaudited convenience translation into U.S.$(See Note 2.d)*		As of June 30, 2010		March 31, 2010	
ASSETS							
Current assets							
Cash and cash equivalents	5	U.S.$	137	Rs.	6,366	Rs.	6,584
Other investments			51		2,350		3,600
Trade receivables, net			275		12,769		11,960
Inventories	6		311		14,451		13,371
Derivative financial instruments	4						573
Current tax assets			12		549		530
Other current assets			129		5,995		5,445
Total current assets		**U.S.$**	**915**	**Rs.**	**42,480**	**Rs.**	**42,063**
Non-current assets							
Property, plant and equipment	7		516		23,940		22,459
Goodwill	8		47		2,168		2,174
Other intangible assets	9		240		11,119		11,799
Investment in equity accounted investees			7		315		310
Deferred income tax assets			34		1,584		1,282
Other non-current assets			6		259		243
Total non-current assets		**U.S.$**	**849**	**Rs.**	**39,385**	**Rs.**	**38,267**
Total assets		**U.S.$**	**1,764**	**Rs.**	**81,865**	**Rs.**	**80,330**
LIABILITIES AND EQUITY							
Current liabilities							
Trade payables		U.S.$	209	Rs.	9,689	Rs.	9,322
Derivative financial instruments	4		1		61		
Current income tax liabilities			34		1,582		1,432
Bank overdraft	5		1		30		39
Short-term borrowings			131		6,101		5,565
Long-term borrowings, current portion	10		76		3,515		3,706
Provisions			25		1,149		1,094
Other current liabilities			169		7,843		7,864
Total current liabilities		**U.S.$**	**646**	**Rs.**	**29,970**	**Rs.**	**29,022**

Non-current liabilities							
Long-term loans and borrowings, excluding current portion	10	U.S.$	91	Rs.	4,226	Rs.	5,385
Provisions			1		40		39
Deferred tax liabilities			49		2,260		2,720
Other liabilities			9		403		249
Total non-current liabilities		**U.S.$**	**149**	**Rs.**	**6,929**	**Rs.**	**8,393**
Total liabilities		**U.S.$**	**795**	**Rs.**	**36,899**	**Rs.**	**37,415**

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

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

Particulars	Note	June 30, 2010		As of June 30, 2010		March 31, 2010	
		Unaudited convenience translation into U.S.$(See Note 2.d)					
Equity							
Share capital		U.S.$	18	Rs.	846	Rs.	844
Equity shares held by controlled trust					(5)		(5)
Share premium			444		20,621		20,429
Share based payment reserve			13		593		692
Retained earnings			434		20,131		18,035
Other components of equity			60		2,780		2,920
Total equity attributable to:							
Equity holders of the Company		U.S.$	969	Rs.	44,966	Rs.	42,915
Non-controlling interests							
Total equity		**U.S.$**	**969**	**Rs.**	**44,966**	**Rs.**	**42,915**
Total liabilities and equity		**U.S.$**	**1,764**	**Rs.**	**81,865**	**Rs.**	**80,330**

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

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

Particulars	*Note*	Three months ended June 30, 2010 *Unaudited Convenience Translation into U.S.$ (See Note 2.d)*		Three months ended June 30, 2010		Three months ended June 30, 2009	
Revenues		U.S.$	363	Rs.	16,831	Rs.	18,189
Cost of revenues			171		7,917		8,017
Gross profit		**U.S.$**	**192**	**Rs.**	**8,914**	**Rs.**	**10,172**
Selling, general and administrative expenses			118		5,481		5,927
Research and development expenses			21		993		985
Other (income)/expense, net	11		(4)		(185)		(35)
Total operating expenses, net		**U.S.$**	**136**	**Rs.**	**6,289**	**Rs.**	**6,877**
Results from operating activities			**57**		**2,625**		**3,295**
Finance income			2		99		88
Finance expense			(6)		(276)		(223)
Finance (expense)/income, net	12		**(4)**		**(177)**		**(135)**
Share of profit of equity accounted investees, net of income tax					5		11
Profit/before income tax			**53**		**2,453**		**3,171**
Income tax expense	17		(8)		(357)		(726)
Profit for the period		**U.S.$**	**45**	**Rs.**	**2,096**	**Rs.**	**2,445**
Attributable to:							
Equity holders of the Company			45		2,096		2,445
Non-controlling interests							
		U.S.$	**45**	**Rs.**	**2,096**	**Rs.**	**2,445**
Earnings per share	14						
Basic earnings per share of Rs.5/- each		U.S.$	0.27	Rs.	12.41	Rs.	14.51
Diluted earnings per share of Rs.5/- each		U.S.$	0.27	Rs.	12.34	Rs.	14.45

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

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

	Three months ended June 30,					
	2010		2010		2009	
	Unaudited Convenience Translation into U.S.$ (See Note 2.d)					
Profit for the period	**U.S.$**	**45**	**Rs.**	**2,096**	**Rs.**	**2,445**
Other comprehensive income/(loss)						
Changes in fair value of available for sale financial instruments	U.S.$		Rs.	1	Rs.	8
Foreign currency translation adjustments		3		161		110
Effective portion of changes in fair value of cash flow hedges, net		(12)		(573)		289
Income tax on other comprehensive income/(loss)		6		271		(108)
Other comprehensive income/(loss) for the period, net of income tax	**U.S.$**	**(3)**	**Rs.**	**(140)**	**Rs.**	**299)**
Total comprehensive income/(loss) for the period	**U.S.$**	**42**	**Rs.**	**1,956**	**Rs.**	**2,744**
Attributable to:						
Equity holders of the Company		42		1,956		2,744
Non-controlling interests						
Total comprehensive income/(loss) for the period	**U.S.$**	**42**	**Rs.**	**1,956**	**Rs.**	**2,744**

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

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

Particulars	Share capital Shares	Share capital Amount	Share premium Amount	Fair value reserve Amount	Foreign currency translation reserve Amount	Hedging reserve Amount
Balance as of April 1, 2010	**168,845,385**	**Rs. 844**	**Rs. 20,429**	**Rs. 24**	**Rs. 2,559**	**Rs. 337**
Issue of equity shares on exercise of options	298,878	2	192			
Net change in fair value of other investments, net of tax benefit of Rs.1				2		
Foreign currency translation differences, net of tax benefit of Rs.76					237	
Effective portion of changes in fair value of cash flow hedges, net of tax benefit of Rs.194						(379)
Share based payment expense						
Profit for the period						
Balance as of June 30, 2010	**169,144,263**	**Rs. 846**	**Rs. 20,621**	**Rs. 26**	**Rs. 2,796**	**Rs. (42)**
Convenience translation into U.S. $		**18**	**444**	**1**	**60**	**(1)**
Balance as of April 1, 2009	**168,468,777**	**Rs. 842**	**Rs. 20,204**	**Rs. 11**	**Rs. 2,168**	**Rs. (156)**
Issue of equity share on exercise of options	198,493	1	117			
Net change in fair value of other investments, net of tax expense of Rs.0				8		
Foreign currency translation differences, net of tax expense of Rs.10					101	
Effective portion of changes in fair value of cash flow hedges, net of tax expense of Rs.98						190
Share based payment expense						
Profit for the period						
Balance as of June 30, 2009	**168,667,270**	**Rs. 843**	**Rs. 20,321**	**Rs. 19**	**Rs. 2,269**	**Rs. 34**

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

[Continued from table on page 8, first column(s) repeated]

Particulars		**Share based payment reserve Amount**		**Equity shares held by a controlled trust* Amount**		**Retained earnings Amount**		**Non-controlling interests Amount**		**Total Amount**
Balance as of April 1, 2010	**Rs.**	**692**	**Rs.**	**(5)**	**Rs.**	**18,035**	**Rs.**		**Rs.**	**42,915**
Issue of equity share on exercise of options		(165)								29
Net change in fair value of other investments, net of tax benefit of Rs.1										2
Foreign currency translation differences, net of tax benefit of Rs.76										237
Effective portion of changes in fair value of cash flow hedges, net of tax benefit of Rs.194										(379)
Share based payment expense		66								66
Profit for the period						2,096				2,096
Balance as of June 30, 2010	**Rs.**	**593**	**Rs.**	**(5)**	**Rs.**	**20,131**	**Rs.**		**Rs.**	**44,966**
Convenience translation into U.S. $		**13**				**434**				**969**
Balance as of April 1, 2009	**Rs.**	**676**	**Rs.**	**(5)**	**Rs.**	**18,305**	**Rs.**		**Rs.**	**42,045**
Issue of equity share on exercise of options		(115)								3
Net change in fair value of other investments, net of tax expense of Rs.0										8
Foreign currency translation differences, net of tax expense of Rs.10										101
Effective portion of changes in fair value of cash flow hedges, net of tax expense of Rs.98										190
Share based payment expense		40								40
Profit for the period						2,445				2,445
Balance as of June 30, 2009	**Rs.**	**601**	**Rs.**	**(5)**	**Rs.**	**20,750**	**Rs.**		**Rs.**	**44,832**

* The number of equity shares held by a controlled trust as of April 1, 2009, June 30, 2009, April 1, 2010 and June 30, 2010 was 82,800.

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

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
(in millions)

Particulars	Three months ended June 30, 2010		2010		2009	
	Unaudited convenience translation into U.S.$(See Note 2.d)					
Cash flows from operating activities:						
Profit for the period	U.S.$	45	Rs.	2,096	Rs.	2,445
Adjustments for:						
Income tax expense		8		357		726
Profit on sale of investments		(1)		(38)		(8)
Depreciation and amortization		21		976		1,134
Allowance for sales returns		6		272		175
Allowance for doubtful trade receivables				9		28
Inventory write-downs		5		241		81
(Profit)/loss on sale of property, plant and equipment, net				(1)		12
Share of profit of equity accounted investees, net of income tax				(5)		(11)
Unrealized exchange (gain)/loss, net		(2)		(90)		437
Interest (income)/expense, net				(9)		59
Share based payment expense		1		66		40
Changes in operating assets and liabilities:						
Trade receivables		(2)		(113)		589
Inventories		(32)		(1,497)		(905)
Other assets		(17)		(768)		10
Trade payables		(1)		(42)		790
Other liabilities and provisions		(1)		(57)		(887)
Income tax paid		(12)		(539)		(400)
Net cash from operating activities	**U.S.$**	**18**	**Rs.**	**858**	**Rs.**	**4,315**
Cash flows used in investing activities:						
Expenditures on property, plant and equipment		(41)		(1,894)		(442)
Proceeds from sale of property, plant and equipment				23		6
Purchase of investments		(90)		(4,172)		(4,979)
Proceeds from sale of investments		118		5,462		5,103
Expenditures on intangible assets				(3)		(15)
Interest received				18		16
Net cash used in investing activities	**U.S.$**	**(12)**	**Rs.**	**(566)**	**Rs.**	**(311)**
Cash flows used in financing activities:						
Interest paid		(1)		(69)		(153)

Proceeds from issuance of equity shares		1		29		3
Proceeds/(repayment) of short term loans and borrowings, net		8		376		(3,002)
Repayment of long term loans and borrowings, net		(19)		(885)		(797)
Net cash used in financing activities	**U.S.$**	**(12)**	**Rs.**	**(549)**	**Rs.**	**(3,949)**
Net increase/(decrease) in cash and cash equivalents		(6)		(257)		55
Effect of exchange rate changes on cash and cash equivalents		1		48		278
Cash and cash equivalents at the beginning of the period		141		6,545		5,378
Cash and cash equivalents at the end of the period	**U.S.$**	**137**	**Rs.**	**6,336**	**Rs.**	**5,711**

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

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

1. Reporting Entity

Dr. Reddy s Laboratories Limited (DRL or the parent company), together with its subsidiaries (collectively, the Company), is a leading India-based pharmaceutical company headquartered in Hyderabad, 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; 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 and other countries of the former Soviet Union, the United States, the United Kingdom and Germany. The Company s shares trade on the Bombay Stock Exchange and the National Stock Exchange in India and, since April 11, 2001, also on the New York Stock Exchange in the United States.

2. Basis of preparation of financial statements

a. Statement of compliance

These unaudited condensed consolidated interim financial statements as at and for the three months ended June 30, 2010 have been prepared under the historical cost convention on the accrual basis, except for certain financial instruments which have been measured at fair values. These unaudited condensed consolidated interim financial statements are prepared and presented in accordance with IAS 34, *Interim Financial Reporting* . They do not include all of the information required for full annual financial statements and should be read in conjunction with the audited consolidated financial statements and related notes included in the Company s Annual Report on Form 20-F for the fiscal year ended March 31, 2010. These unaudited condensed consolidated interim financial statements were authorized for issuance by the Company s Board of Directors on December 6, 2010.

b. Significant accounting policies

The accounting policies applied by the Company in these unaudited condensed consolidated interim financial statements are the same as those applied by the Company in its audited consolidated financial statements as at and for the year ended March 31, 2010 contained in the Company s Annual Report on Form 20-F.

c. Functional and presentation currency

The unaudited condensed consolidated interim financial statements are presented in Indian rupees, which is the functional currency of the parent company. 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.

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

2. Basis of preparation of financial statements (continued)

c. Functional and presentation currency (continued)

In respect of subsidiaries and associates 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 period.

Resulting translation adjustments are included in foreign currency translation reserve. All financial information presented in Indian rupees has been rounded to the nearest million.

d. 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 June 30, 2010 have been translated into United States dollars at the noon buying rate in New York City on June 30, 2010 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.46.41. 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.

e. Use of estimates and judgments

The preparation of unaudited condensed consolidated interim financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these unaudited condensed consolidated interim financial statements the significant judgments made by management in applying the Company s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the audited consolidated financial statements as at and for the year ended March 31, 2010.

f. Recent accounting pronouncements

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

In November 2009, the International Accounting Standards Board issued IFRS 9, *Financial Instruments: Recognition and Measurement* , to reduce the complexity of the current rules on financial instruments as mandated in IAS 39, *Financial Instruments: Recognition and Measurement: Eligible Hedged Items* . The effective date for IFRS 9 is annual periods beginning on or after January 1, 2013 with early adoption permitted. IFRS 9 has fewer classification and measurement categories as compared to IAS 39 and has eliminated the categories of held to maturity, available for sale and loans and receivables. Further it eliminates the rule-based requirement of segregating embedded derivatives and tainting rules pertaining to held to maturity investments. For an investment in an equity instrument which is not held for trading, IFRS 9 permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to profit or loss. The Company is required to adopt IFRS 9 by its accounting year commencing April 1, 2014. The Company is currently evaluating the requirements of IFRS 9, and has not yet determined the impact on its unaudited condensed consolidated interim financial statements.

In May 2010, the IASB issued *Improvements to IFRSs* a collection of amendments to seven International Financial Reporting Standards as part of its program of annual improvements to its standards, which is intended to make necessary, but non-urgent, amendments to standards that will not be included as part of another major project.

The latest amendments were included in exposure drafts of proposed amendments to IFRS published in August 2009. The amendments resulting from this standard mainly have effective dates for annual periods beginning on or after

January 1, 2011, although entities are permitted to adopt them earlier. The Company is evaluating the impact that these amendments will have on the Company s unaudited condensed consolidated interim financial statements.

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

3. Segment reporting

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

Global Generics. This segment consists of finished pharmaceutical products ready for consumption by the patient, marketed under a brand name (branded formulations) or as generic finished dosages with therapeutic equivalence to branded formulations (generics). This reportable segment was formed through the combination and re-organization of the Company s former Formulations and Generics segments in the year ended March 31, 2009.

Proprietary Products. This segment involves the discovery of new chemical entities for subsequent commercialization and out-licensing. It also involves the Company s differentiated formulations business which engages in research, sales and marketing operations for in-licensed and co-developed branded dermatology products.

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

	Three months ended June 30,									
formation about segments:	**PSAI**		**Global Generics**		**Proprietary Products**		**Others**		**Total**	
gments	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
gment revenues *(Note 1)*	**Rs. 4,499**	**Rs. 4,869**	**Rs. 11,917**	**Rs. 13,020**	**Rs. 122**	**Rs. 112**	**Rs. 293**	**Rs. 188**	**Rs. 16,831**	**Rs. 18,18**
oss profit	**Rs. 1,002**	**Rs. 1,704**	**Rs. 7,735**	**Rs. 8,313**	**Rs. 80**	**Rs. 73**	**Rs. 97**	**Rs. 82**	**Rs. 8,914**	**Rs. 10,17**
ling, general and ministrative expenses									5,481	5,92
search and development penses									993	98
her (income)/expense, net									(185)	(3
sults from operating ivities									**2,625**	**3,29**
ance (expense)/income, net									(177)	(13
are of profit of equity counted investees, net of ome tax									5	1
ofit before income tax									**2,453**	**3,17**

ome tax expense		(357)		(72
ofit for the period	**Rs.**	**2,096**	**Rs.**	**2,44**

Note 1: Segment revenues for the three months ended June 30, 2010 does not include inter-segment revenues from PSAI to Global Generics which is accounted for at cost of Rs.777 (as compared to Rs.639 for the three months ended June 30, 2009).

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3. Segment reporting (continued)

Analysis of revenue by geography within Global Generics segment:

The CODM reviews the geographical composition of revenues within the Company s Global Generics segment. Accordingly, the geographical revenue information within the Company s Global Generics segment has been provided for the three months ended June 30, 2010 and June 30, 2009, with corresponding comparative information.

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

	For the three months ended June 30,			
		2010		2009
India	Rs.	2,778	Rs.	2,393
North America (the United States and Canada)		3,898		6,026
Russia and other countries of the former Soviet Union		2,552		1,871
Europe		1,836		2,109
Others		853		621
	Rs.	**11,917**	**Rs.**	**13,020**

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

	For the three months ended June 30,			
		2010		2009
Clopidogrel	Rs.	225	Rs.	327
Ciprofloxacin Hcl		292		247
Finasteride		193		241
Gemcitabine		359		227
Naproxen		157		188
Ramipril		151		148
Rabeprazole sodium		137		128
Moxifloxacin		39		118
Ranitidine Hcl Form 2		121		106
Sumatriptan		183		90
Others		2,642		3,049
Total	**Rs.**	**4,499**	**Rs.**	**4,869**

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

	For the three months ended June 30,			
		2010		2009
Omeprazole	Rs.	1,658	Rs.	1,359
Nimesulide		900		658
Sumatriptan		140		2,064

Ciprofloxacin		561		427
Ketrorol		461		350
Simvastatin		448		589
Finasteride		146		330
Ceterizine		314		209
Ranitidine		283		252
Amlo benzapril		257		
Others		6,749		6,782
Total	**Rs.**	**11,917**	**Rs.**	**13,020**

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4. 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, Russian roubles 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 and option contracts have maturities of less than one year after the statement of financial position 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 June 30, 2010 was an asset of Rs.25 (as compared to Rs.550 at March 31, 2010). This amount was recognized as derivatives measured at fair value.

Recognized assets and liabilities

Changes in the fair value of forward exchange contracts and option contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognized in the income statement. 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 finance 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.86 at June 30, 2010 (as compared to an asset of Rs.23 at March 31, 2010).

Fair values

The net carrying amount and fair value of all financial instruments, except derivative financial instruments, as at June 30, 2010 was a net liability of Rs.8,313 (as compared to a net liability of Rs.7,383 at March 31, 2010).

The Company recognized a net foreign exchange gain on derivative financial instruments of Rs.12 and Rs.273, for the three months ended June 30, 2010 and June 30, 2009 respectively. These amounts are included in finance expense/(income).

In respect of foreign currency derivative contracts designated as cash flow hedges, the Company has recorded a net loss of Rs.573 and a net gain of Rs.289 as a component of equity for the three months ended June 30, 2010 and June 30, 2009 respectively, and a net gain of Rs.126 and Rs.5 as part of revenue during the three months ended June 30, 2010, and June 30, 2009 respectively.

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5. Cash and cash equivalents

Cash and cash equivalents consist of:

	As of			
	June 30, 2010		March 31, 2010	
Cash balances	Rs.	9	Rs.	9
Balances with banks		6,357		6,575
Cash and cash equivalents on the statements of financial position		**6,366**		**6,584**
Bank overdrafts used for cash management purposes		(30)		(39)
Cash and cash equivalents on the cash flow statement	**Rs.**	**6,336**	**Rs.**	**6,545**

Balances with banks included above amounting to Rs.19 as of June 30, 2010 and as of March 31, 2010, respectively, represent amounts in the unclaimed dividend accounts, and are therefore restricted.

6. Inventories

Inventories consist of the following:

	As of			
	June 30, 2010		March 31, 2010	
Raw materials	Rs.	4,555	Rs.	4,000
Packing material, stores and spares		983		979
Work-in-process		3,847		3,883
Finished goods		5,066		4,509
	Rs.	**14,451**	**Rs.**	**13,371**

During the three months ended June 30, 2010, the Company recorded inventory write-downs of Rs.241 (as compared to Rs.81 for the three months ended June 30, 2009). These adjustments were included in cost of revenues. Cost of revenues for the three months ended June 30, 2010 includes raw materials, consumables and changes in finished goods and work in progress recognized in the income statement amounting to Rs.5,041 (as compared to Rs.5,618, for the three months ended June 30, 2009). The above table includes inventories amounting to Rs.859 and Rs.814 which are carried at fair value less cost to sell as at June 30, 2010 and March 31, 2010, respectively.

7. Property, plant and equipment

Acquisitions and disposals

During the three months ended June 30, 2010, the Company acquired assets at an aggregate cost of Rs.2,164 (as compared to a cost of Rs.698 and Rs.4,494 for the three months ended June 30, 2009 and the year ended March 31, 2010, respectively). Assets with a net book value of Rs.22 were disposed of during the three months ended June 30, 2010 (as compared to Rs.18 and Rs.480 for the three months ended June 30, 2009 and the year ended March 31, 2010, respectively), resulting in a net gain on disposal of Rs.1 (as compared to a loss of Rs.12 and Rs.24 for the three months ended June 30, 2009 and the year ended March 31, 2010, respectively). Depreciation expense for the three months ended June 30, 2010 was Rs.688 (as compared to Rs.627 for the three months ended June 30, 2009).

Capital Commitments

As of June 30, 2010 and March 31, 2010, the Company was committed to spend approximately Rs.3,990 and Rs.2,948 respectively, under agreements to purchase property, plant and equipment. This amount is net of capital advances paid in respect of such purchases.

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8. 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 three months ended June 30, 2010 and June 30, 2009 and the year ended March 31, 2010:

	Three months ended June 30, 2010		Three months ended June 30, 2009		Year ended March 31, 2010	
Opening balance (1)	Rs.	18,267	Rs.	18,246	Rs.	18,246
Effect of translation adjustments (3)		(6)		11		21
Closing balance (1)	**Rs.**	**18,261**	**Rs.**	**18,257**	**Rs.**	**18,267**
Less: Impairment loss (2)		(16,093)		(10,946)		(16,093)
	Rs.	**2,168**	**Rs.**	**7,311**	**Rs.**	**2,174**

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

(2) The impairment loss of Rs.16,093 includes Rs.16,003 pertaining to the Company s German subsidiary, betapharm Arzneimittel GmbH, which is part of the Company s Global Generics segment.

(3) Effect of translation adjustments includes Rs.2,426 on account of translation of impairment loss.

9. Other intangible assets

Acquisitions and write-down of intangibles

During the three months ended June 30, 2010, the Company acquired other intangible assets at an aggregate cost of Rs.3 (as compared to a cost of Rs.15 and Rs.2,831 for the three months ended June 30, 2009 and the year ended March 31, 2010, respectively).

Product related intangibles acquired during the year ended March 31, 2010 includes an amount of Rs.2,680 (U.S.$57), representing the value of re-acquired rights on the product portfolio that arose upon the exercise by I-VEN Pharma Capital Limited (I-VEN) of the portfolio termination value option under its research and development agreement with the Company entered into during the year ended March 31, 2005, as amended.

During the year ended March 31, 2005, the Company entered into an agreement with I-VEN Pharma Capital Limited (I-VEN) for the joint development and commercialization of a portfolio of 36 generic drug products. As per the terms of the agreement, I-VEN had a right to fund up to 50% of the project costs (development, registration and legal costs) related to these products and the related U.S. Abbreviated New Drug Applications (ANDA) filed or to be filed, subject to a maximum contribution of U.S.$56. Upon successful commercialization of these products, the Company was required to pay I-VEN a royalty on net sales at agreed rates for a period of 5 years from the date of commercialization of each product.

The first tranche of Rs.985 (U.S.$23) was funded by I-VEN on March 28, 2005. This amount received from I-VEN was initially recorded as an advance and subsequently credited in the income statement as a reduction of research and development expenses upon completion of specific milestones as detailed in the agreement. A milestone (i.e., a product filing as per the terms of the agreement) was considered to be completed once the appropriate ANDA was submitted by the Company to the U.S. FDA. Achievement of a milestone entitled the Company to reduce the advance and credit research and development expenses in a fixed amount equal to I-VEN s share of the research and development costs of the product (which varied depending on whether the ANDA was a Paragraph III or Paragraph IV filing). Accordingly, based on product filings made by the Company through March 31, 2007, an aggregate amount of Rs.933 has been credited to research and development expense during the years ended March 31, 2005, 2006 and 2007.

As per the agreement, in April 2010 and upon successful achievement of certain performance milestones specified in the agreement (e.g., successful commercialization of a specified number of products, and achievement of specified sales milestones), I-VEN had a one-time right to require the Company to pay I-VEN a portfolio termination value amount for such portfolio of products. In the event I-VEN exercised this portfolio termination value option, then it would not be entitled to the sales-based royalty payment for the remaining contractual years.

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9. Other intangible assets (continued)

During the year ended March 31, 2010, the Company and I-VEN reached an agreement for I-VEN to exercise the portfolio termination value option for a portfolio termination value amount of Rs.2,680 (U.S.$57) to be paid by the Company on or before September 30, 2010. This agreement represented a constructive present obligation as at March 31, 2010. Accordingly, the Company has recorded an asset of Rs.2,680 (U.S.$57) (in the form of product related intangibles, essentially representing a relief from future royalty costs payable to I-VEN) and an equivalent liability representing consideration payable to I-VEN on or before September 30, 2010.

On October 1, 2010, the Company and I-VEN entered into an agreement regarding the portfolio termination value option exercise. The transaction has been structured as a purchase of the stock of I-VEN. The Company paid Rs.2,680 (U.S.$57) to the shareholders of I-VEN, except that Rs.150 of this amount will be set aside in escrow in order to provide a fund for certain indemnification obligations of the shareholders of I-VEN. On the 15 month anniversary of the date of this agreement, any portion of these funds not subjected to indemnity claims of the Company would be released to the shareholders of I-VEN. Upon consummation of this transaction, I-VEN has become a wholly-owned subsidiary of the Company. No adjustments have been recorded in the unaudited condensed consolidated interim financial statements for the three months ended June 30, 2010.

Amortization expenses for the three months ended June 30, 2010 was Rs.288 (as compared to amortization expenses of Rs.507 for the three months ended June 30, 2009).

10. Loans and borrowings

Short term loans and borrowings

The Company had undrawn lines of credit of Rs.13,310 and Rs.7,850 as of June 30, 2010 and March 31, 2010, respectively, from its banks for working capital requirements. These lines of credit are renewable annually. The Company has the right to draw upon these lines of credit based on its requirements.

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

	As at	
	June 30, 2010	**March 31, 2010**