DR REDDYS LABORATORIES LTD
Form 6-K
June 06, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 6-K
REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13A-16 OR 15D-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934
For the Three Months Ended September 30, 2007
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): __________

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 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
Three Months Ended September 30, 2007

Currency of Presentation and Certain Defined Terms

In this Quarterly Report, references to $ or dollars or U.S.$ or U.S. dollars are to the legal currency of the United States and references to Rs. or rupees or Indian rupees are to the legal currency of India. Our financial statements are presented in Indian rupees and are prepared in accordance with United States Generally Accepted Accounting Principles (U.S. GAAP). Convenience translation into U.S. dollars with respect to the unaudited interim condensed consolidated financial statements is also presented. References to a particular fiscal year are to our fiscal year ended March 31 of such year. References to ADS are to our American 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.

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 Co 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 28, 2007 for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York, which was Rs.39.75 per U.S.$1.00. September 28, 2007 was the last day of the quarter ended September 30, 2007 for which the noon buying rate is available. No representation is made that the Indian rupee amounts have been, could have been or could be converted into U.S. dollars at such a rate or any other rate. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

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

Forward-Looking and Cautionary Statement

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

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

	As of March 31, 2007		As of September 30, 2007		As of September 30, 2007 Convenience translation into U.S.$	
ASSETS						
Current assets:						
Cash and cash equivalents	Rs.	17,981,447	Rs.	8,445,185	U.S.$	212,457
Investment securities		15,325		1,714,101		43,122
Restricted cash		606,159		19,972		502
Accounts receivable, net of allowances		7,518,878		8,390,127		211,072
Inventories		7,545,580		9,620,273		242,019
Deferred income taxes and deferred charges		557,792		477,449		12,011
Due from related parties		145,086		172,812		4,347
Other current assets		3,096,129		4,347,531		109,372
Total current assets		37,466,396		33,187,450		834,902
Property, plant and equipment, net		12,427,798		13,658,090		343,600
Due from related parties		4,856		25,039		630
Investment securities		1,089,950		483,199		12,156
Goodwill		15,540,688		15,425,214		388,056
Intangible assets, net		18,888,413		17,720,106		445,789
Other assets		501,002		500,050		12,580
Total assets	Rs.	85,919,103	Rs.	80,999,147	U.S.$	2,037,713
LIABILITIES AND STOCKHOLDERS EQUITY						
Current liabilities:						
Borrowings from banks	Rs.	3,212,676	Rs.	1,841,589	U.S.$	46,329
Current portion of long-term debt		3,670,266		2,198,998		55,321
Trade accounts payable		4,754,978		5,955,789		149,831
Due to related parties		871		58,032		1,460
Accrued expenses		3,958,539		2,945,102		74,091
Other current liabilities		2,936,103		4,025,675		101,274
Total current liabilities		18,533,433		17,025,185		428,306
Long-term debt, excluding current portion		17,870,983		12,309,934		309,684
Deferred income taxes		7,556,228		5,877,791		147,869
Other liabilities		369,759		421,099		10,593

Total liabilities	Rs.	44,330,402	Rs.	35,634,010	U.S.$	896,452
Minority interest		10,473		6,353		160
Stockholders equity:						
Equity shares at Rs.5 par value: 200,000,000 shares authorized; issued and outstanding: 167,912,180 shares and 168,097,442 shares as of March 31, 2007 and September 30, 2007, respectively	Rs.	839,561	Rs.	840,488	U.S.$	21,144
Additional paid-in capital		19,908,837		20,002,082		503,197
Equity options outstanding		564,937		588,379		14,802
Retained earnings		20,091,135		23,850,559		600,014
Equity shares held by a controlled trust: 82,800 shares		(4,882)		(4,882)		(122)
Accumulated other comprehensive income		178,640		82,158		2,067
Total stockholders equity		41,578,228		45,358,784		1,141,101
Total liabilities and stockholders equity	Rs.	85,919,103	Rs.	80,999,147	U.S.$	2,037,713

See accompanying notes to the unaudited condensed consolidated financial statements

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

	Three months ended September 30		Six months ended September 30,		
	2006	**2007**	**2006**	**2007**	**2007** Convenience translation into U.S.$
Revenues:					
Product sales, net of allowances for sales returns (includes excise duties of Rs.645,493, Rs.170,208, Rs.1,293,952 and Rs.326,269 for the three months ended September 30, 2006 and 2007 and six months ended September 30, 2006 and 2007, respectively)	Rs. 19,849,781	Rs. 12,304,529	Rs. 33,767,973	Rs. 24,225,431	U.S.$ 609,445
License fees	204	234	23,220	425	11
Service income	188,560	146,450	296,758	208,414	5,243
	20,038,545	12,451,213	34,087,951	24,434,270	614,699
Cost of revenues	11,750,272	6,169,701	19,710,729	12,083,881	303,997
Gross profit	8,288,273	6,281,512	14,377,222	12,350,389	310,702
Operating expenses, net:					
Selling, general and administrative expenses	3,667,484	4,009,927	7,013,605	7,141,035	179,649
Research and development expenses, net	401,548	809,569	934,422	1,615,846	40,650
Amortization expenses	402,386	409,811	790,195	760,519	19,133
Foreign exchange (gain)/loss, net	(54,751)	(255,262)	19,723	(540,298)	(13,592)
Other operating (income)/expenses, net	(1,776)	331	(71,310)	1,138	29

Total operating expenses, net		4,414,891		4,974,376		8,686,635		8,978,241		225,868
Operating income		3,873,382		1,307,136		5,690,587		3,372,149		84,834
Equity in (loss)/Gain of affiliates		(21,385)		3,425		(36,730)		(603)		(15)
Other (expense)/income, net		(321,227)		111,500		(517,885)		54,033		1,359
Income before income taxes and minority interest		3,530,770		1,422,061		5,135,972		3,425,579		86,178
Income taxes (expense)/benefit		(737,091)		1,248,483		(944,631)		1,067,011		26,843
Minority interest		4,004		1,097		3,954		4,120		104
Net income	Rs.	2,797,683	Rs.	2,671,641	Rs.	4,195,295	Rs.	4,496,710	U.S.$	113,125
Earnings per equity share										
Basic	Rs.	18.23	Rs.	15.89	Rs.	27.34	Rs.	26.76	U.S.$	0.67
Diluted	Rs.	18.15	Rs.	15.84	Rs.	27.23	Rs.	26.66	U.S.$	0.67
Weighted average number of equity shares used in computing earnings per equity share										
Basic		153,478,168		168,092,786		153,445,821		168,010,500		168,010,500
Diluted		154,147,090		168,643,124		154,085,480		168,685,382		168,685,382

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Equity Shares								
	No. of shares		**Amount**		**Additional Paid In Capital**	**Comprehensive Income**		**Accumulated Other Comprehensive Income**	**No. of shares**
Balance as of April 1, 2006	153,389,140	Rs.	383,473	Rs.	10,261,783		Rs.	(33,563)	82,800
Stock dividend			383,789		(383,789)				
Issuance of equity shares on exercise of options	126,464		316		52,838				
Stock based compensation									
Dividends paid									
Comprehensive income									
Net income						Rs. 4,195,295			
Translation adjustment						369,377		369,377	
Unrealized gain on investments, net of tax expense of Rs.6,506						25,240		25,240	
Cumulative impact of adoption of SFAS 123R									
Comprehensive income						Rs. 4,589,912			
Balance as of September 30, 2006	153,515,604	Rs.	767,578	Rs.	9,930,832		Rs.	361,054	82,800
Convenience translation into U.S.$		U.S.$	16,705	U.S.$	216,123		U.S.$	7,858	
Balance as of April 1, 2007	167,912,180	Rs.	839,561	Rs.	19,908,837		Rs.	178,640	82,800
Issuance of equity shares on exercise	185,262		926		93,245				

of options						
Stock based compensation						
Dividend paid						
Comprehensive income						
Net income				Rs. 4,496,710		
Translation adjustment				(174,628)	(174,628)	
Unrealized gain on investments, net of tax expense of Rs. 18,087				73,754	73,754	
Employee benefit transactions, net of tax expense of Rs.1,206				4,392	4,392	
Comprehensive income				Rs. 4,400,229		
Balance as of September 30, 2007	168,097,442	Rs. 840,488	Rs. 20,002,082		Rs. 82,158	82,800
Convenience translation into U.S.$		U.S.$ 21,144	U.S.$ 503,197		U.S.$ 2,067	

See accompanying notes to the unaudited condensed consolidated financial statements

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

[Continued from above table, first column(s) repeated]

	Equity Shares held by a Controlled Trust				
	No. of shares	Amount	Equity - Options Outstanding	Retained Earnings	Total Stockholders Equity
Balance as of April 1, 2006	82,800	Rs. (4,882)	Rs. 463,128	Rs. 11,201,794	Rs. 22,271,733
Stock dividend					
Issuance of equity shares on exercise of options			(40,170)		12,984
Stock based compensation			84,058		84,058
Dividends paid				(437,497)	(437,497)
Comprehensive income					
Net income				4,195,295	4,195,295
Translation adjustment					369,377
Unrealized gain on investments, net of tax expense of Rs.6,506					25,240
Cumulative impact of adoption of SFAS 123R			(14,806)		(14,806)
Comprehensive income					
Balance as of September 30 , 2006	82,800	Rs. (4,882)	Rs. 492,210	Rs. 14,959,592	Rs. 26,506,384
Convenience translation into U.S.$		U.S.$ (106)	U.S.$ 10,712	U.S.$ 325,562	U.S.$ 576,853
Balance as of April 1, 2007	82,800	Rs. (4,882)	Rs. 564,937	Rs. 20,091,135	Rs. 41,578,228
Issuance of equity shares on exercise of options			(84,222)		9,950
Stock based compensation			107,664		107,664
Dividend paid				(737,287)	(737,287)
Comprehensive income					
Net income				4,496,710	4,496,710
Translation adjustment					(174,628)
Unrealized gain on investments, net of tax expense of Rs. 18,087					73,754
Employee benefit transactions, net of tax expense of Rs. 1,206					4,392
Comprehensive income					

Balance as of September 30, 2007	82,800	Rs.	(4,882)	Rs.	588,379	Rs.	23,850,559	Rs.	45,358,784
Convenience translation into U.S.$		U.S.$	(122)	U.S.$	14,802	U.S.$	600,014	U.S.$	1,141,101

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

	Six months ended September 30,		
	2006	**2007**	**2007**
			Convenience translation into U.S.$
Cash flows from operating activities:			
Net income	Rs. 4,195,295	Rs. 4,496,710	U.S.$ 113,125
Adjustments to reconcile net income to net cash from operating activities:			
Deferred tax expense/(benefit)	(499,955)	(1,268,902)	(31,922)
Gain on sale of available for sale securities, net	(1)	(16,186)	(407)
Depreciation and amortization	1,491,210	1,563,822	39,341
Loss/(profit) on sale of property, plant and equipment	(64,298)	1,138	29
Equity in loss of affiliates	36,730	603	15
Unrealized exchange loss / (gain)	275,237	(46,855)	(1,179)
Stock based compensation	69,252	107,664	2,709
Minority interest	(3,954)	(4,120)	(104)
Changes in operating assets and liabilities:			
Accounts receivable	(4,827,422)	(1,085,796)	(27,316)
Inventories	(2,893,046)	(2,320,666)	(58,382)
Other assets	(678,670)	(1,959,401)	(49,293)
Due to/from related parties, net	(257,470)	9,252	233
Trade accounts payable	5,666,073	1,852,090	46,593
Accrued expenses	(87,364)	(957,728)	(24,094)
Other liabilities	359,122	1,873,101	47,122
Net cash provided by operating activities	2,780,740	2,244,724	56,471
Cash flows from investing activities:			
Restricted cash	1,575,528	586,187	14,747
Expenditure on property, plant and equipment	(1,907,149)	(2,261,327)	(56,889)
Proceeds from sale of property, plant and equipment	73,555	13,680	345
Purchase of investment securities, net of proceeds from sale	(105,827)	(987,501)	(24,843)
Expenditure on intangible assets/payment of contingent consideration	(230,421)	(250,439)	(6,300)
Net cash provided used in investing activities	(594,314)	(2,899,399)	(72,941)
Cash flows from financing activities:			
	12,984	9,950	250

Proceeds from issuance of equity shares on exercise of options			
Proceeds from/(repayments of) bank borrowings, net	(366,000)	(1,306,761)	(32,874)
Repayment of long-term debt	(4,488)	(6,021,692)	(151,489)
Dividends paid	(437,497)	(737,287)	(18,548)
Net cash used in financing activities	(795,001)	(8,055,790)	(202,661)
Net increase/ (decrease) in cash and cash equivalents during the period	1,391,425	(8,710,465)	(219,131)
Effect of exchange rate changes on cash and cash equivalents	(228,531)	(825,796)	(20,775)
Cash and cash equivalents at the beginning of the period	3,712,637	17,981,447	452,363
Cash and cash equivalents at the end of the period	Rs. 4,875,531	Rs. 8,445,185	U.S.$ 212,457
Supplemental disclosures:			
Cash paid for:			
Interest (net of interest capitalized)	Rs. 890,854	Rs. 532,260	U.S.$ 13,390
Income taxes	359,837	617,137	15,208
Supplemental schedule of non-cash investing activities:			
Property, plant and equipment purchased on credit during the period	Rs. 95,250	Rs. 204,196	U.S.$ 5,137

See accompanying notes to the unaudited condensed consolidated financial statements

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

1. Basis of preparation of financial statements

The accompanying unaudited interim condensed consolidated financial statements of Dr. Reddy s Laboratories Limited (the Company or DRL), have been prepared by the management on substantially the same basis as the audited financial statements for the year ended March 31, 2007, and in the opinion of the management, include all adjustments of normal recurring nature necessary for a fair presentation of the financial information set forth herein. The preparation of unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

2. Interim information

The accompanying unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes contained in the Annual Report on Form 20-F for the year ended March 31, 2007. The results of the interim periods are not necessarily indicative of results to be expected for the full fiscal year.

3. Convenience translation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in Indian rupees. Solely for the convenience of the reader, the financial statements as of September 30, 2007 have been translated into U.S. dollars at the noon buying rate in New York City on September 28, 2007 for cable transfers in Indian rupees, as certified for customs purposes by the Federal Reserve Bank of New York of U.S.$1 = Rs.39.75. September 28, 2007 was the last day of the quarter ended September 30, 2007 for which the noon buying rate is available. No representation is made that the Indian rupee amounts have been, could have been or could be converted into U.S. dollars at such a rate or any other rate.

4. Stock based compensation

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

The Company uses the Black-Scholes option pricing model to determine the fair value of each option grant. Generally, the fair value approach in SFAS No. 123(R) is similar to the fair value approach described in SFAS No. 123. The Company elected to continue to estimate the fair value of stock options using the Black-Scholes option pricing model. The Black-Scholes model includes assumptions regarding dividend yields, expected volatility, expected lives and risk free interest rates. These assumptions reflect management s best estimates, but these assumptions involve inherent market uncertainties based on market conditions generally outside of the control of the Company. As a result, if other assumptions had been used in the current period, stock-based compensation expense could have been materially impacted. Furthermore, if management uses different assumptions in future periods, stock based compensation expense could be materially impacted in future years.

The fair value of each option is estimated on the date of grant using the Black-Scholes model with the following assumptions:

	Three months ended September 30,		Six months ended September 30,	
	2006	**2007**	**2006**	**2007**
Dividend yield			0.4%	0.75%
Expected life			12-78 months	12-48 months
Risk free interest rates			4.5 - 7.5%	7.8-8.2%

Volatility	23.4 - 50.7%	28.4 - 32.7%

No grants were made under the Company s Stock options plan during the three month periods ended September 30, 2006 and 2007.

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

4. Stock based compensation (continued)

As of September 30, 2007, the Company had four stock-based employee compensation plans, which are described more fully in Note 10. The Company had two stock based employee compensation plans and its subsidiary, Aurigene Discovery Technologies Limited, had two stock based employee compensation plans.

As of September 30, 2007, the Company had approximately Rs.376,256 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under its plans. This cost is expected to be recognized as stock-based compensation expense over a weighted-average period of 3.8 years.

The total employee stock based compensation expense for the three months ended September 30, 2006 and 2007 were Rs.53,024 and Rs.63,590, respectively, and for the six months ended September 30, 2006 and 2007 were Rs.84,058 and Rs.107,664, respectively.

A recent amendment to the Indian tax regulations requires the Company to pay a tax titled the Fringe Benefit Tax (FBT) on employee stock options. The FBT is computed based on the fair market value of the underlying share on the date of vesting of an option as reduced by the amount actually paid by the employee for the exercise of the options. The Company s obligation to pay FBT arises only upon the exercise of the options and will be recorded at the time of the exercise. The FBT paid during the six months ended September 30, 2007 is not material.

5. Taxes on Income

Effective April 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprises financial statements in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (SFAS 109) and prescribes a recognition threshold of more likely than not to be sustained upon examination. The adoption of FIN 48 did not have any material impact on the retained earnings or provision for taxation as of April 1, 2007. Upon adoption, the unrecognized tax benefit for income taxes (including interest and penalties) associated with uncertain tax positions (i.e., unrecognized tax benefit) at April 1, 2007 was Rs.1,325,233, which if recognized, would favorably affect the Company s effective tax rate.

Although it is difficult to anticipate the final outcome or timing of resolution of any particular uncertain tax positions, the Company as of September 30, 2007 had not identified any potential subsequent events that would have a material impact on unrecognized income tax benefits within the next twelve months.

It is the Company s consistent policy to include any penalties and interest related to income taxes as part of income tax expense.

A listing of open tax years is given below. Additionally, some uncertain tax positions relate to earlier years, which are currently under dispute with the tax authorities.

Jurisdiction	**Open tax years**
India	2004-05 to 2006-07
U.S.A.	2004,2005,2006,2007
Germany	2004,2005,2006,2007

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

6. Goodwill

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, the Company tests goodwill for impairment at least annually.

The following table presents the changes in goodwill during the year ended March 31, 2007 and for the six months ended September 30, 2007:

	Year ended March 31, 2007	Six months ended September 30, 2007
Balance at the beginning of the period [1]	Rs. 16,816,452	Rs. 15,722,631
Acquired/adjusted during the period	(2,013,351)	206,896
Effect of translation adjustments	919,530	(322,370)
Balance at the end of the period[1]	Rs. 15,722,631	Rs. 15,607,157

Goodwill acquired during the year ended March 31, 2007 and for six months ended September 30, 2007 represent the following:

	Year ended March 31, 2007	Six months ended September 30, 2007
Cash paid / payable towards contingent consideration	Rs. 96,987	Rs. 206,896
Adjustment on account of completion of final allocation of purchase price in the acquisition of betapharm	(2,110,338)	
	Rs. (2,013,351)	Rs. 206,896

The following table presents the allocation of goodwill among the Company s segments:

	As of March 31, 2007	As of September 30, 2007
Formulations[1]	Rs. 349,774	Rs. 349,774
Active pharmaceutical ingredients and intermediates	997,025	997,025
Generics	14,285,395	14,169,921
Drug discovery	90,437	90,437
	Rs. 15,722,631	Rs. 15,607,157

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

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7. Intangible assets, net

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, intangible assets are amortized over the expected benefit period or the legal life, whichever is shorter.

The following table presents acquired and amortized intangible assets as of September 30, 2007 and March 31, 2007:

	As of September 30, 2007		
	Gross carrying amount	Accumulated amortization	Net carrying value
Trademarks	Rs. 2,584,066	Rs. 2,437,368	Rs. 146,698
Trademarks not subject to amortization	5,006,885		5,006,885
Product related intangibles	13,800,426	1,600,426	12,200,000
Beneficial toll manufacturing contract	649,923	307,571	342,351
Non-competition arrangements	128,106	120,876	7,230
Marketing rights	8,093	8,093	
Customer related intangibles including customer contracts	170,624	155,118	15,506
Others	10,100	8,664	1,436
	Rs. 22,358,222	Rs. 4,638,116	Rs. 17,720,106

	As of March 31, 2007			
	Gross carrying amount	Accumulated amortization	Adjustments	Net carrying value
Trademarks	Rs. 2,597,962	Rs. 2,359,221		Rs. 238,741
Trademarks not subject to amortization	5,943,440		815,967	5,127,473
Product related intangibles	14,920,953	1,180,701	740,736	12,999,516
Beneficial toll manufacturing contract	665,505	179,691		485,814
Core technology rights and licenses	132,753		132,753	
Non-competition arrangements	131,214	120,030		11,184
Marketing rights	95,130	14,365	80,765	
Customer related intangibles including customer contracts	177,375	153,435		23,940
Others	10,624	8,879		1,745
	Rs. 24,674,956	Rs. 4,016,322	Rs. 1,770,221	Rs. 18,888,413

The aggregate amortization expense for the three months ended September 30, 2006 and 2007 were Rs.402,386 and Rs.409,811, respectively, and for the six months ended September 30, 2006 and 2007 were Rs.790,195 and Rs.760,519, respectively.

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7. Intangible assets, net (continued)

Estimated amortization expense for the next five years and thereafter with respect to such assets is as follows:

For the six months period ending March 31, 2008	Rs. 720,292
For the year ending March 31,	
2009	1,271,675
2010	988,446
2011	988,248
2012	961,118
Thereafter	7,783,442
Total	Rs. 12,713,221

The intangible assets (net of amortization) as of September 30, 2007 have been allocated to the following segments:

	Formulations	Generics	Custom Pharmaceutical Services	Total
Trademarks	Rs. 143,189	Rs. 3,508		Rs. 146,698
Trademarks not subject to amortization		5,006,885		5,006,885
Product related intangibles		12,200,000		12,200,000
Beneficial toll manufacturing contract		342,351		342,351
Non-competition arrangements			7,230	7,230
Customer related intangibles including customer contracts	3,218		12,289	15,506
Others		1,436		1,436
	Rs. 146,407	Rs. 17,554,181	Rs. 19,518	Rs. 17,720,106

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7. Intangible assets, net (continued)

The intangible assets (net of amortization) as of March 31, 2007 have been allocated to the following segments:

	Formulations	Generics	Custom Pharmaceutical Services	Total
Trademarks	Rs. 233,108	Rs. 5,633		Rs. 238,741
Trademarks not subject to amortization		5,127,473		5,127,473
Product related intangibles		12,999,516		12,999,516
Benefical toll manufacturing contract		485,814		485,814
Non-competition arrangements		177	11,007	11,184
Customer related intangibles		584	23,356	23,940
Others		1,745		1,745
	Rs. 233,108	Rs. 18,620,942	Rs. 34,363	Rs. 18,888,413

Write-down of intangible assets acquired in Trigenesis acquisition

In 2004, the Company, through the acquisition of Trigenesis Therapeutics Inc. (Trigenesis), acquired certain technology platforms and marketing rights for a total consideration of Rs.496,715 (U.S.$11,000) which was accounted for as a purchase of intangible assets. During the quarter ended March 31, 2007, the Company completed its detailed review of its business opportunities against each of the core technology rights, licenses and marketing rights it acquired in connection with the acquisition of Trigenesis. As a result of this review, the Company determined that further commercialization of the intangible assets may not be economically viable because of further regulatory and approval process requirements and unfeasible partnering prospects, and therefore discontinued its efforts to further develop these assets. Accordingly, the net carrying value of the intangible assets was written down to Rs.0, by recording an amount of Rs.213,518 as expense during the quarter ended March 31, 2007. The above write-down, which relates to the Company s specialty business (included in Generics) has been included in the Adjustments column in the March 31, 2007 table above.

Change in estimated useful life of beneficial toll manufacturing contract intangible

The Company s German operations primarily sourced its products from Salutas GmbH (Salutas) under the then existing long-term contract. The contract gave betapharm a benefit by way of a larger commitment period to supply products at a favorable purchase price. Accordingly, at the time of betapharm s purchase price allocation, this was identified as a beneficial toll manufacturing contract and recorded as an intangible asset. In January 2007, Salutas served a termination notice to betapharm cancelling its future commitment to supply products under the contract. betapharm renegotiated its terms and prices with Salutas, which resulted in a reduction in the overall committed supply period from 58 months to 24 months and increased procurement prices. Based on this amendment in January 2007, the Company revised its estimated useful life of the intangible and accordingly is amortizing the balance unamortized amount as on the date of such amendment over the revised remaining useful life.

Write-down of intangible assets acquired in betapharm acquisition

During the year ended March 31, 2007, triggered by the above contract amendment with Salutas resulting in supply constraints in the short term period, increased procurement prices and certain market events including continuing decreases in market price and increased competitive intensity, the Company tested the carrying value of betapharm intangibles for impairment. The carrying value of these intangibles included certain product related intangibles and the beta brand. The Company markets a broad and diversified portfolio comprised of formulations(primarily solid dose) in the German generic market under the beta brand. The beta brand was fair valued applying the relief from royalty method. As a result of this review, the Company recorded a write-down of intangible assets amounting to

Rs.1,556,703 during the quarter ended March 31, 2007 and adjusted the carrying value of the beta brand and certain product related intangibles as of March 31, 2007. The above write down relates to the Company s generics segment and has been included in the Adjustments column in the March 31, 2007 table above.

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8. Property, plant and equipment, net

Property, plant and equipment consist of the following:

	As of March 31, 2007	As of September 30, 2007
Land	Rs. 875,662	Rs. 1,034,057
Buildings	3,063,872	3,471,554
Plant and machinery	9,974,476	10,892,691
Furniture, fixtures and equipment	936,504	960,109
Vehicles	383,024	416,896
Computer equipment	679,076	754,352
Capital work-in-progress	2,805,221	2,891,672
	18,717,835	20,421,330
Accumulated depreciation	(6,290,037)	(6,763,240)
	Rs. 12,427,798	Rs. 13,658,090

Depreciation expenses for the three months ended September 30, 2006 and 2007 were Rs.358,829 and Rs.410,148, respectively, and for the six months ended September 30, 2006 and 2007 were Rs.701,015 and Rs.803,303, respectively.

9. Inventories

Inventories consist of the following:

	As of March 31, 2007	As of September 30, 2007
Raw materials	Rs. 2,147,896	Rs. 2,603,264
Packing material, stores and spares	560,629	734,677
Work-in-process	1,674,235	2,359,454
Finished goods	3,162,820	3,922,877
	Rs. 7,545,580	Rs. 9,620,273

During the six months ended September 30, 2006 and 2007, the Company recorded an inventory write-down of Rs.146,498 and Rs.163,299, respectively, resulting from a decline in the market value of certain finished goods and write down of certain raw materials. These amounts are included in the cost of revenues.

In the quarter ended June 30, 2007, betapharm and Salutas agreed to the firm purchase quantities under their long-term supply contract, which resulted in a loss on firm purchase commitment on certain products amounting to Rs.268,227, which is included in the cost of revenues.

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10. Employee stock incentive plans

Dr. Reddy s Employees Stock Option Plan-2002 (the DRL 2002 Plan):

The Company instituted the DRL 2002 Plan for all eligible employees pursuant to the special resolution approved by the shareholders in the Annual General Meeting held on September 24, 2001. The DRL 2002 Plan covers all employees of DRL and all employees and directors of its subsidiaries. Under the DRL 2002 Plan, the Compensation Committee of the Board (the Compensation Committee) administers the DRL 2002 Plan and grant stock options to eligible employees of the Company and its subsidiaries. The Compensation Committee determines the employees eligible for receiving the options, the number of options to be granted, the exercise price, the vesting period and the exercise period. The vesting period is determined for all options issued on the date of the grant. The vesting period for options issued under the DRL 2002 Plan range between one and four years.

The DRL 2002 Plan was amended on July 28, 2004 at the annual general meeting of shareholders to provide for stock option grants in two categories:

Category A: 1,721,700 stock options out of the total of 2,295,478 reserved for grant of options having an exercise price equal to the fair market value of the underlying equity shares on the date of grant; and

Category B: 573,778 stock options out of the total of 2,295,478 reserved for grant of options having an exercise price equal to the par value of the underlying equity shares (i.e., Rs.5 per option).

The DRL 2002 Plan was further amended on July 27, 2005 at the annual general meeting of shareholders to provide for stock option grants in two categories:

Category A: 300,000 stock options out of the total of 2,295,478 reserved for grant of options having an exercise price equal to the fair market value of the underlying equity shares on the date of grant; and

Category B: 1,995,478 stock options out of the total of 2,295,478 reserved for grant of options having an exercise price equal to the par value of the underlying equity shares (i.e., Rs.5 per option).

Under the DRL 2002 Plan, the exercise price of the fair market value options granted under Category A above is determined based on the average closing price for 30 days prior to the grant in the stock exchange where there is highest trading volume during that period. Notwithstanding the foregoing, the Compensation Committee may, after obtaining the approval of the shareholders in the annual general meeting, grant options with a per share exercise price other than fair market value and par value of the equity shares.

After the stock dividend issued by the Company in August 2006, the DRL 2002 Plan provides for stock options granted in two categories as follows:

Particulars	Number of Options granted Under category A	Number of Options granted Under category B	Total
Options reserved under original Plan	300,000	1,995,478	2,295,478
Options exercised prior to stock dividend date (A)	94,061	147,793	241,854
Balance of shares that can be alloted exercise of options (B)	205,939	1,847,685	2,053,624
Options arising from stock dividend (C)	205,939	1,847,685	2,053,624
Options reserved after stock dividend (A+B+C)	505,939	3,843,163	4,349,102

On April 5, 2007, certain employees surrendered their par value options under the DRL 2002 Plan and the Company issued par value options under the DRL 2007 Plan (discussed below) to such employees. This transaction was a modification of the stock options already granted under the DRL 2002 Plan. The incremental cost was immaterial.

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10. Employee stock incentive plans (continued)

Stock option activity under the DRL 2002 Plan during the three months and six months ended September 30, 2006 was as follows:

Category A Fair Market Value Options

	Three months ended September 30, 2006			
	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted-average remaining contractual life (months)
Outstanding at the beginning of the period	224,500	Rs.362.5-531.51	Rs.434.88	62
Exercised during the period	(27,120)	441.5-531.51	469.63	
Outstanding at the end of the period	197,380	362.5-531.51	430.10	60
Exercisable at the end of the period	106,630	Rs.362.5-531.51	Rs.452.23	43

Category B Par Value Options

	Three months ended September 30, 2006			
	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted-average remaining contractual life (months)
Outstanding at the beginning of the period	1,126,530	Rs. 5	Rs. 5	82
Forfeited during the period	(31,354)	5	5	
Exercised during the period	(83,978)	5	5	
Outstanding at the end of the period	1,011,198	5	5	81
Exercisable at the end of the period	44,820	Rs. 5	Rs. 5	55

Category A Fair Market Value Options

	Six months ended September 30, 2006			
	Shares arising out	Range of exercise	Weighted-average	Weighted-average remaining contractual life

	of options	prices	exercise price	(months)
Outstanding at the beginning of the period	234,500	Rs. 362.5-531.51	Rs. 439.43	64
Expired / forfeited during the period	(10,000)	442.5-574.5	541.5	
Exercised during the period	(27,120)	441.5-531.51	469.63	
Outstanding at the end of the period	197,380	362.5-531.51	430.10	60
Exercisable at the end of the period	106,630	Rs. 362.5-531.51	Rs. 452.23	43

Category B Par Value Options

	Six months ended September 30, 2006			
	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted-average remaining contractual life (months)
Outstanding at the beginning of the period	729,968	Rs. 5	Rs. 5	81
Granted during the period	416,260	5	5	90
Forfeited during the period	(35,686)	5	5	
Exercised during the period	(99,344)	5	5	
Outstanding at the end of the period	1,011,198	5	5	81
Exercisable at the end of the period	44,820	Rs. 5	Rs. 5	55

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10. Employee stock incentive plans (continued)

The per option weighted average grant date fair value for options granted under the DRL 2002 Plan at par value during the six months ended September 30, 2006 was Rs.574.02. No options at fair market value were granted during the three months and six months ended September 30, 2006.

Stock option activity under the DRL 2002 Plan during the three months and six months ended September 30, 2007 was as follows:

Category A Fair Market Value Options

	Three months ended September 30, 2007			
	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted-average remaining contractual life (months)
Outstanding at the beginning of the period	179,580	Rs.362.5-531.51	Rs. 426.9	52
Expired / forfeited during the period	(200)	442.5	442.5	
Exercised during the period	(9,400)	442.5-531.51	495.5	
Outstanding at the end of the period	169,980	362.5-531.51	423.1	49
Exercisable at the end of the period	128,780	Rs.362.5-531.51	Rs.434.87	39

Category B Par Value Options

	Three months ended September 30, 2007			
	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted-average remaining contractual life (months)
Outstanding at the beginning of the period	973,460	Rs. 5	Rs. 5	69
Forfeited during the period	(41,328)	5	5	
Exercised during the period	(38,190)	5	5	
Outstanding at the end of the period	901,542	5	5	67
Exercisable at the end of the period	77,412	Rs. 5	Rs. 5	53

Category A Fair Market Value Options

Six months ended September 30, 2007

Weighted-

	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted-average remaining contractual life (months)
Outstanding at the beginning of the period	191,580	Rs. 362.5-531.51	Rs. 427.9	54
Expired / forfeited during the period	(2,100)	442.5	442.5	
Exercised during the period	(19,500)	441.5-531.51	467.7	
Outstanding at the end of the period	169,980	362.5-531.51	423.1	49
Exercisable at the end of the period	128,780	Rs. 362.5-531.51	Rs. 434.87	39

Category B Par Value Options

	Six months ended September 30, 2007			
	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted-average remaining contractual life (months)
Outstanding at the beginning of the period	889,252	Rs. 5	Rs. 5	77
Granted during the period	386,060	5	5	90
Forfeited during the period	(73,390)	5	5	
Surrendered by employees during the period	(138,418)	5	5	
Exercised during the period	(165,762)	5	5	
Outstanding at the end of the period	901,542	5	5	67
Exercisable at the end of the period	77,412	Rs. 5	Rs. 5	53

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10. Employee stock incentive plans (continued)

No options at fair market value were granted under the DRL 2002 Plan during the three months ended September 30, 2007. The per option weighted average grant date fair value of options granted under the DRL 2002 Plan at par value during the six months ended September 30, 2007 was Rs.549.33.

The aggregate intrinsic value of options exercised under the DRL 2002 Plan for the six months ended September 2006 and 2007 was Rs.65 million and Rs.112 million, respectively. As of September 30, 2007, options outstanding and exercisable under the DRL 2002 Plan had an aggregate intrinsic value of Rs.620 million and Rs.78 million, respectively.

Dr. Reddy s Employees ADR Stock Option Plan-2007 (the DRL 2007 Plan):

The Company instituted the DRL 2007 Plan for all eligible employees in pursuance of the special resolution approved by the shareholders in the Annual General Meeting held on July 27, 2005. The DRL 2007 Plan became effective upon its approval by the Board of Directors on January 22, 2007. The DRL 2007 Plan covers all eligible employees of the Company and all eligible employees and directors of its subsidiaries. Under the DRL 2007 Plan, the Compensation Committee of the Board (the Compensation Committee) administers the DRL 2007 Plan and grants stock options to eligible employees of the Company and its subsidiaries. The Compensation Committee determines the employees eligible for receiving the options, the number of options to be granted, the exercise price, the vesting period and the exercise period. The vesting period is determined for all options issued on the date of the grant.

The DRL 2007 Plan provides for stock option grants in two categories:

Category A: 382,695 stock options out of the total of 1,530,779 reserved for grant of options having an exercise price equal to the fair market value of the underlying equity shares on the date of grant; and

Category B: 1,148,084 stock options out of the total of 1,530,779 reserved for grant of options having an exercise price equal to the par value of the underlying equity shares (i.e., Rs.5 per option).

The vesting period for options issued under the DRL 2007 Plan range between one and four years. Stock option activity under the DRL 2007 Plan during the three months and six months ended September 30, 2007 was as follows:

Category B Par Value Options

	Three months ended September 30, 2007			
	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted-average remaining contractual life (months)
Outstanding at the beginning of the period	206,818	Rs. 5	Rs. 5	81
Forfeited during the period	(920)	5	5	
Outstanding at the end of the period	205,898	Rs. 5	Rs. 5	78
Exercisable at the end of the period				

Category B Par Value Options

Six months ended September 30, 2007

Weighted-average

	Shares arising out of options	Range of exercise prices	Weighted- average exercise price	remaining contractual life (months)
Granted during the period	206,818	Rs. 5	Rs. 5	81
Forfeited during the period	(920)	5	5	
Outstanding at the end of the period	205,898	Rs. 5	Rs. 5	78
Exercisable at the end of the period				

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10. Employee stock incentive plans (continued)

The per option weighted average grant date fair value for options granted under the DRL 2007 Plan at par value during the six months ended September 30, 2007 was Rs.550.51.

No options were exercised under the DRL 2007 Plan during the six months ended September 30, 2007. As of September 30, 2007, options outstanding under the DRL 2007 Plan had an aggregate intrinsic value of Rs.133 million.

No options were granted at fair market value under this plan during the three months and six months ended September 30, 2007.

*Aurigene Discovery Technologies Ltd. Employee Stock Option Plan (*the "Aurigene ESOP Plan *):*

In fiscal 2004, Aurigene Discovery Technologies Limited (Aurigene), a consolidated subsidiary, adopted the Aurigene ESOP Plan to provide for issuance of stock options to employees. Aurigene has reserved 4,550,000 of its equity shares for issuance under this plan. Under the Aurigene ESOP Plan, stock options may be granted at a price per share as may be determined by the Compensation Committee. The options vest at the end of three years from the date of grant of option.

Stock option activity under the Aurigene ESOP Plan during the three months and six months ended September 30, 2006 was as follows:

	Three months ended September 30, 2006			
	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted-average remaining contractual life (months)
Outstanding at the beginning of the period	597,083	Rs. 10	Rs. 10	69
Forfeited during the period	(28,826)	10	10	
Outstanding at the end of the period	568,257	10	10	62
Exercisable at the end of the period	7,470	Rs. 10	Rs. 10	35

	Six months ended September 30, 2006			
	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted-average remaining contractual life (months)
Outstanding at the beginning of the period	528,907	Rs. 10	Rs. 10	67
Granted during the period	135,000	10	10	73
Forfeited during the period	(95,650)	10	10	
Outstanding at the end of the period	568,257	10	10	62
Exercisable at the end of the period	7,470	Rs. 10	Rs. 10	32

The per option weighted average grant date fair value for options granted under the Aurigene ESOP Plan during the six months ended September 30, 2006 was Rs.2.50. No options were granted during the three months ended September 30, 2006 under the Aurigene ESOP Plan.

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10. Employee stock incentive plans (continued)

Stock option activity under the Aurigene ESOP Plan during the three months and six months ended September 30, 2007 was as follows:

	Three months ended September 30, 2007			
	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted-average remaining contractual life (months)
Outstanding at the beginning of the period	1,159,494	Rs. 10	Rs. 10	62
Forfeited during the period	(19,716)	10	10	
Outstanding at the end of the period	1,139,778	10	10	56
Exercisable at the end of the period	59,743	Rs. 10	Rs. 10	29

	Six months ended September 30, 2007			
	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted-average remaining contractual life (months)
Outstanding at the beginning of the period	1,183,583	Rs. 10	Rs. 10	62
Forfeited during the period	(43,805)	10	10	
Outstanding at the end of the period	1,139,778	10	10	56
Exercisable at the end of the period	59,743	Rs. 10	Rs. 10	29

No options were granted during the three months and six months ended September 30, 2007 under the Aurigene ESOP Plan.

*Aurigene Discovery Technologies Ltd. Management Group Stock Grant Plan (*the "Management Plan)*:*

In fiscal 2004, Aurigene adopted the Management Plan to provide for issuance of stock options to management employees of Aurigene and its subsidiary Aurigene Discovery Technologies Inc. Aurigene reserved 2,950,000 equity shares for issuance under this plan. Under the Management Plan, stock options were granted at a price per share as determined by the compensation committee. The options vest on the date of grant of the options.

No options were granted during the three months and six months ended September 30, 2006 and 2007 under the Management Plan. As of September 30, 2007, there were no outstanding stock options under the Management Plan.

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11. Employee benefit plans

Gratuity benefits: In accordance with applicable Indian laws, the Company provides for gratuity, a defined benefit retirement plan (the Gratuity Plan) covering certain categories of employees. The Gratuity Plan provides a lump sum payment to vested employees at retirement or termination of employment. The payment amount is based on the respective employee s last drawn salary and the years of employment with the Company. Effective September 1, 1999, the Company established Dr. Reddy s Laboratories Gratuity Fund (the Gratuity Fund). Liabilities with regard to the Gratuity Plan are determined by an actuarial valuation, based upon which the Company makes contributions to the Gratuity Fund. Trustees administer the contributions made to the Gratuity Fund. The amounts contributed to the Gratuity Fund are invested in specific securities as mandated by law and generally consist of federal and state government bonds and debt instruments of government-owned corporations.

The components of net periodic benefit cost for the three months and six months ended September 30, 2006 and 2007 is as follows:

	Three months ended September 30,		Six months ended September 30,	
	2006	2007	2006	2007
Service cost	Rs. 6,774	Rs. 7,471	Rs. 13,548	Rs. 14,942
Interest cost	3972	5,155	7,945	10,310
Expected return on plan assets	(4,048)	(4,223)	(8,096)	(8,446)
Recognized net actuarial (gain)/loss	1,182	1,396	2,363	2,791
Net amount recognized	Rs. 7,880	Rs. 9,799	Rs. 15,760	Rs. 19,597

Pension plan: All of the employees of *Industrias Quimicas Falcon de Mexico* (Falcon) are entitled to a pension plan in the form of a Defined Benefit Plan. The pension plan provides a payment to vested employees at retirement or termination of their employment. This payment is based on the employee s integrated salary and is paid in the form of a monthly pension over a period of 20 years computed based on a predefined formula. Liabilities with regard to the pension plan are determined by an actuarial valuation, based upon which the Company makes contributions to the pension fund. This fund is administered by a third party, who is provided guidance by a technical committee formed by senior employees of the Company.

The components of net periodic benefit cost for three and six months ended September 30, 2006 and 2007 is as follows:

	Three months ended September 30,		Six months ended September 30,	
	2006	2007	2006	2007
Service cost	Rs. 4,381	Rs. 3,831	Rs. 8,586	Rs. 7,744
Interest cost	3,738	3,126	7,327	6,321
Expected return on plan assets	(3946)	(3,885)	(7,733)	(7,854)
Amortization of net transition obligation	1,115	946	2,185	1,912
Recognised net actuarial (gain)/loss	(40)		(79)	
Cost price inflation index adjustment	197	141	386	284
Net amount recognized	Rs. 5,445	Rs. 4,159	Rs. 10,672	Rs. 8,407

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12. Commitments and Contingencies

Capital Commitments: As of March 31, 2007 and September 30, 2007, the Company had committed to spend approximately Rs.1,186,049 and Rs.615,211, respectively, under agreements to purchase property and equipment. The amount is net of capital advances paid in respect of such purchases.

Guarantees: In accordance with the provisions of FIN 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others, the Company recognizes the fair value of guarantee and indemnification arrangements issued or modified by the Company, if these arrangements are within the scope of that Interpretation. In addition, the Company continues to monitor the conditions that are subject to the guarantees and indemnifications to identify whether it is probable that a loss has occurred, and would recognize any such losses under the guarantees and indemnifications when those losses are estimable.

Our equity investee, Kunshan Rotam Reddy Pharmaceuticals Co. Limited (KRRP), secured a credit facility of Rs.32,000 from Citibank, N.A. (Citibank). During the fiscal year ended March 31, 2006, the Company issued a corporate guarantee amounting to Rs.45,000 in favor of Citibank to enhance the credit standing of KRRP. The guarantee is required to be renewed every year and the Company s liability may arise in case of non-payment by KRRP under its credit facility agreement with Citibank. As of September 30, 2007, the fair value of such liability is not material.

Litigations/Contingencies: The Company manufactures and distributes Norfloxacin, a formulations product. Under the Drugs Prices Control Order (the DPCO), the Government of India has the authority to designate a pharmaceutical product as a specified product and fix the maximum selling price for such product. In 1995, the Government of India notified Norfloxacin as a specified product and fixed the maximum selling price. In 1996, the Company filed a statutory Form III before the Government of India for the upward revision of the price and a legal suit in the Andhra Pradesh High Court (the High Court) challenging the validity of the notification on the grounds that the applicable rules of the DPCO were not complied with while fixing the ceiling price. The High Court had earlier granted an interim order in favor of the Company; however it subsequently dismissed the case in April 2004. The Company filed a review petition in the High Court in April 2004 which was also dismissed by the High Court in October 2004. Subsequently, the Company appealed to the Supreme Court of India by filing a Special Leave Petition. The appeal is currently pending with the Supreme Court.

During the fiscal year ended March 31, 2006, the Company received a notice from the Government of India demanding the recovery of the price the Company charged for Norfloxacin in excess of the maximum selling price fixed by the Government of India, amounting to Rs.284,984 including interest thereon. The Company filed a writ petition in the High Court challenging the Government of India s demand order. The High Court has admitted the writ petition and granted an interim order, however it ordered the Company to deposit 50% of the principal amount claimed by the Government of India, which amounts to Rs.77,149. The Company deposited this amount with the Government of India on November 14, 2005 while it awaits the outcome of its appeal with the Supreme Court. On February 4, 2008, the Andhra Pradesh High Court directed the Company to deposit a further amount of Rs. 30,000. The amount was deposited by the Company on March 28, 2008. The Company has provided fully against the potential liability in respect of the principal amount demanded (included under other current liabilities) and believes that the possibility of any liability that may arise on account of interest and penalty is remote. In the event that the Company is unsuccessful in the litigation in the Supreme Court, it will be required to remit the sale proceeds in excess of the maximum selling price to the Government of India and penalties or interest if any, the amounts of which are not readily ascertainable.

During the fiscal year ended March 31, 2003, the Central Excise Authorities of India (the Authorities) issued a demand notice on one of the Company s vendors with regard to the assessable value of its products supplied to the Company. The Company has been named as a co-defendant in the notice. The Authorities demanded payment of Rs.175,718 from the vendor, including a penalty of Rs.90,359. The Authorities, through the same notice, issued a penalty claim of Rs.70,000 against the Company. During the fiscal year ended March 31, 2005, the Authorities issued an additional notice on the vendor demanding Rs.225,999 from the vendor, including a penalty of Rs.51,152. The Authorities, through the same notice, issued a penalty claim of Rs.6,500 against the Company. Further, during the fiscal year ended March 31, 2006, the Authorities issued an additional notice on the vendor demanding payment of Rs.33,549. The Company has filed appeals against these notices. On August 31, 2006 and September 30, 2006 the Company attended the hearings conducted by the Customs, Excise and Service Tax Appellate Tribunal (the CESTAT) on the matter. On October 31, 2006, the CESTAT passed an order in favor of the Company setting aside all of the above demands. On July 20, 2007, the Authorities appealed against this order in the Supreme Court. The Company believes that the ultimate outcome will not have any material adverse effect on its financial position, results of operations or cash flows in any given accounting period.

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12. Commitments and Contingencies (continued)

In April 2006, the Company launched its fexofenadine hydrochloride 30 mg, 60 mg and 180 mg tablet products, which are generic versions of Sanofi-Aventis (Aventis) Allegra® tablets. The Company is currently defending patent infringement actions brought by Aventis in the United States District Court for the District of New Jersey. There are three formulation patents, three use patents, and two active pharmaceutical ingredients (API) patents that are the subject matter of litigation concerning the Company s tablets. The Company has obtained summary judgment as to each of the formulation patents. In September 2005, pursuant to an agreement with Barr Pharmaceuticals, Inc., Teva Pharmaceuticals Industries Limited (Teva) launched its fexofenadine hydrochloride 30 mg, 60 mg and 180 mg tablet products, which are AB-rated (bioequivalent) to Aventis Allegra® tablets. Aventis has brought patent infringement actions against Teva and its API supplier in the United States District Court for the District of New Jersey. There are three formulation patents, three use patents, and two API patents at issue in the litigation and Teva has obtained summary judgment as to each of the formulation patents. On January 27, 2006, the District Court denied Aventis motion for a preliminary injunction against Teva and its API supplier on the three use patents, finding those patents likely to be invalid, and one of the API patents, finding that patent likely to be not infringed. The issues presented during that hearing are likely to be substantially similar to those which will be presented with respect to Company s tablet products. A trial has not been scheduled. If Aventis is ultimately successful on its allegation of patent infringement, the Company could be required to pay damages related to the sales of its fexofenadine hydrochloride tablets and be prohibited from selling those products in the future.

In March 2000, Dr. Reddy s Laboratories Inc. (DRLI), a consolidated subsidiary, acquired 25% of its common stock held by a minority shareholder (Pharma, LLC) for a cash consideration of Rs.1,072, which was accounted for by the purchase method. The terms of the Stock Redemption Agreement dated March 2000 and Amendment to Stock Redemption Agreement dated March 2002 also provided for contingent consideration not exceeding U.S.$14,000 over the ten years following such purchase based on achievement of sales of certain covered products. Such payments are to be recorded as goodwill in the period in which the contingency is resolved in accordance with the consensus reached by the Emerging Issues Task Force on Issue 95-8, *Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination.* Accordingly, as of March 31, 2007, Rs.452,725 (U.S.$10,415) was paid towards such contingent consideration and recorded as goodwill on achievement of such specified milestones.

In August 2006, the Company received a letter from Pharma, LLC alleging that sales of certain products were excluded by the Company from its calculation of gross revenue in computing the amount payable to Pharma, LLC. The Company, in its response, stated that the stated products, being the authorized generic products of the partnering innovator company, are not DRLI products and therefore fall within the definition of excluded products . Accordingly, the Company rejected Pharma LLC s claim for its share of consideration from sale of these products. Subsequently, in October, 2006, Pharma LLC instituted an Arbitration Proceeding under the Redemption Agreement. This arbitration was settled during the three month period ended September 30, 2007 by executing a settlement arrangement through which all remaining payments in the amount of U.S.$4,492 has been agreed to be paid in various installments beginning October 1, 2007 and ending on January 1, 2009. Pursuant to such settlement, the Company has recorded the amount payable to Pharma LLC of Rs.178,984 (U.S.$4,492), representing the balance of the contingent consideration, as goodwill in the financial statements for the three month period ending September 30, 2007.

In April 2007, the Company terminated all of its over-the-counter (OTC) agreements with Leiner Health Products, LLC (Leiner). This action was taken by the Company after receiving notice that, on March 16, 2007, Leiner had been served with a list of Inspection Observations on a Form 483 from the United States Food and Drug Administration (U.S. FDA) and, in response thereto, in March 2007, suspended all of its packaging, production and distribution of OTC products manufactured, packaged or tested at Leiner s facilities in the United States. Under the terminated agreements, the Company had provided Leiner with supplies of API to produce OTC products including supplies of finished dose tablets, and access to certain OTC products under development. Subsequently, in March 2008, Leiner filed for bankruptcy. The Company does not believe that this termination and Leiner s filing for bankruptcy will have any material impact on its financial position, results of operations or cashflows in any given accounting period.

In March 2007, the patent for Fosamax (Merck & Co. s brand name for alendronate sodium, which the Company and several other companies sell in generics versions) in Germany was reinstated in favor of Merck & Co. betapharm has filed protective writs to prevent a preliminary injunction without hearing. As of September 30, 2007, no injunction had been granted to Merck & Co. Based on a legal evaluation, betapharm continues selling its generic version of the product and believes that European patent reinstatement does not affect its ability to continue such sales. The Company does not believe that the patent reinstatement will have any material impact on its financial position, results of operations or cash flows in any given accounting period.

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12. Commitments and Contingencies (continued)

The Indian Council for Environmental Legal Action filed a writ in 1989 under Article 32 of the Constitution of India against the Union of India and others in the Supreme Court of India for the safety of people living in the Patancheru and Bollarum areas of Medak district of Andhra Pradesh. The Company has been named in the list of polluting industries.

In 1996, the Andhra Pradesh District Judge proposed that the polluting industries compensate farmers in the Patancheru, Bollarum and Jeedimetla areas for discharging effluents which damaged the farmers agricultural land. The compensation was fixed at Rs.1.30 per acre for dry land and Rs.1.70 per acre for wet land over the following three years. Accordingly, the Company has paid a total compensation of Rs.2,013. The matter is still pending in the courts and the possibility of additional liability is remote. The Company would not be able to recover the compensation paid, even if the decision of the court is in its favor.

The Company is aware of litigation with respect to one of its suppliers for oxycodone, which the Company and several other companies sell in Germany. The innovator company has claimed an infringement of formulation patents and has sued the Company s supplier. In April, 2007 the German trial court rejected an application for an interim order by the innovator company against the Company s supplier. As of September 30, 2007, the Company, based on a legal evaluation, continues to sell the product and believes that the patent infringement case does not affect its ability to sell. The Company does not believe that this will have any material impact on its financial position, results of operations or cash flows in any given accounting period

On April 10, 2008, the Company received a Civil Investigative Demand (CID) from the United States Federal Trade Commission (FTC). A CID is a request for information in the course of a civil investigation and does not constitute the commencement of legal proceedings. The Company has been informed that the focus of the civil antitrust investigation relates to the settlement arrangement entered into between the Company and UCB, S.A. resolving patent litigation concerning levetiracetam. The Company believes that the terms of its settlement arrangement are consistent with all applicable antitrust laws. The Company is cooperating fully with the FTC regarding this investigation. The Company believes that the ultimate outcome of the investigations is not likely to have any material adverse effect on its financial position, results of operations or cash flows in any given accounting period.

Additionally, the Company and its affiliates are involved in other dipsutes, lawsuits, claims, governmental and/or regulatory inspections, inquiries, investigations and proceedings, including patent and commercial matters, that arise from time to time in the ordinary course of business. However, the Company believes that there are no such matters pending that are expected to have a material impact in relation to its financial position, results of operations or cash flows in any given accounting period.

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13. Earning per share

A reconciliation of the equity shares used in the computation of basic and diluted earnings per equity share is set out below:

	Three months ended September 30,		Six months ended September 30,	
	2006	**2007**	**2006**	**2007**
Basic earnings per equity share weighted average number of equity shares outstanding	153,478,168	168,092,786	153,445,821	168,010,500
Effect of dilutive equivalent shares-stock options outstanding	668,922	550,338	639,659	674,883
Diluted earnings per equity share weighted average number of equity shares outstanding	154,147,090	168,643,124	154,085,480	168,685,382

14. Tax reforms in Germany

During the three months ended September 30, 2007, pursuant to changes in German tax laws, the enacted tax rate decreased by almost 10%. This resulted in a reduction in the net deferred tax liability balance of betapharm by Rs.1,408 million, which was reversed as a deferred tax benefit in the Company s statement of operations during the three months and six months periods ended September 30, 2007.

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15. Segment reporting and related information

a) *Segment information*

The Chief Operating Decision Maker (CODM) evaluates the Company s performance and allocates resources based on an analysis of various performance indicators by product segments. The product segments and the respective performance indicators reviewed by the CODM are as follows:

Formulations Revenues by therapeutic product category; Gross profit;

Active pharmaceutical ingredients and intermediates Gross profit, revenues by geography and by key products;

Generics Gross profit;

Drug discovery Revenues and expenses; and

Custom pharmaceutical services Gross profit.

The CODM of the Company does not review the total assets for each reportable segment. The property and equipment used in the Company s business, depreciation and amortization expenses, are not fully identifiable with/allocable to individual reportable segments, as certain assets are used interchangeably between segments. The other assets are not specifically allocable to the reportable segments. Consequently, management believes that it is not practicable to provide segment disclosures relating to total assets since allocation among the various reportable segments is not possible.

Formulations

Formulations, also referred to as finished dosages, consist of finished pharmaceutical products ready for consumption by the patient. Effective April 1, 2007, the Company s critical care and biotechnology segement was merged into its formulations segment. Accordingly, disclosures relating to the previous period have been reclassified/regrouped to conform to the current period presentation. An analysis of revenues by therapeutic category of the formulations segment is given below:

	Three months ended September 30,		Six months ended September 30,	
	2006	2007	2006	2007
Gastrointestinal	Rs. 757,417	Rs. 921,055		