

DR REDDYS LABORATORIES LTD

Form 6-K

August 08, 2017

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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, 2017

Commission File Number 1-15182

DR. REDDY S LABORATORIES LIMITED

(Translation of registrant s name into English)

8-2-337, Road No. 3, Banjara Hills

Hyderabad, Telangana 500 034, India

+91-40-49002900

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F

Form 40-F

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

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

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

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

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

Yes

No

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

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QUARTERLY REPORT

Quarter Ended June 30, 2017

Currency of Presentation and Certain Defined Terms

In this Quarterly Report, references to \$ or dollars or U.S.\$ or U.S. dollars are to the legal currency of the United States, references to Rs. or rupees or Indian rupees are to the legal currency of India, and references to EUR or euros are to the legal currency of the European Union. Our unaudited condensed consolidated interim financial statements are presented in Indian rupees and are prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* (IAS 34). Convenience translation into U.S. dollars with respect to our unaudited condensed consolidated interim financial statements is also presented. References to a particular fiscal year are to our fiscal year ended March 31 of such year. References to ADSs are to our American Depositary Shares. All references to IAS are to the International Accounting Standards, to IASB are to the International Accounting Standards Board, to IFRS are to International Financial Reporting Standards as issued by the IASB, to SIC are to the Standing Interpretations Committee and to IFRIC are to the International Financial Reporting Interpretations Committee.

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

References to U.S. or United States are to the United States of America, its territories and its possessions. References to India are to the Republic of India. References to EU are to the European Union. All references to we , us , our Dr. Reddy s or the Company shall mean Dr. Reddy s Laboratories Limited and its subsidiaries. Dr. Reddy s is a registered trademark of Dr. Reddy s Laboratories Limited in India. Other trademarks or trade names used in this Quarterly Report are trademarks registered in the name of Dr. Reddy s Laboratories Limited or are pending before the respective trademark registries, unless otherwise specified. Market share data is based on information provided by IMS Health Inc. and its affiliates (IMS Health), a provider of market research to the pharmaceutical industry, unless otherwise stated.

Except as otherwise stated in this report, all convenience translations from Indian rupees to U.S. dollars are at the certified foreign exchange rate of U.S.\$1.00 = Rs.64.62, as published by Federal Reserve Board of Governors on June 30, 2017. No representation is made that the Indian rupee amounts have been, could have been or could be converted into U.S. dollars at such a rate or any other rate. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

Information contained in our website, www.drreddys.com, 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 WITH AND/OR FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION (SEC) FROM TIME TO TIME.

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Table of Contents**ITEM 1. FINANCIAL STATEMENTS****DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**

(in millions, except share and per share data)

| Particulars | Note | As of | |
|--|------|--|---------------------------------|
| | | June 30, 2017 <i>Convenience translation into U.S.\$ (See Note 2(d))</i> | June 30, 2017 March 31, 2017 |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 4 | U.S.\$ 44 | Rs. 2,825 |
| Other investments | 5 | 182 | Rs. 11,748 |
| Trade and other receivables | | 637 | Rs. 41,140 |
| Inventories | 6 | 435 | Rs. 28,095 |
| Derivative financial instruments | 8 | 5 | Rs. 319 |
| Current tax assets | | 54 | Rs. 3,517 |
| Other current assets | | 191 | Rs. 12,363 |
| Total current assets | | U.S.\$ 1,548 | Rs. 100,007 |
| Non-current assets | | | |
| Property, plant and equipment | 9 | U.S.\$ 892 | Rs. 57,611 |
| Goodwill | 10 | 59 | Rs. 3,824 |
| Other intangible assets | 11 | 692 | Rs. 44,740 |
| Trade and other receivables | | 3 | Rs. 210 |
| Investment in equity accounted investees | | 27 | Rs. 1,718 |
| Other investments | 5 | 56 | Rs. 3,648 |
| Deferred tax assets | | 87 | Rs. 5,626 |
| Other non-current assets | | 16 | Rs. 1,003 |
| Total non-current assets | | U.S.\$ 1,832 | Rs. 118,380 |
| Total assets | | U.S.\$ 3,380 | Rs. 218,387 |
| LIABILITIES AND EQUITY | | | |
| Current liabilities | | | |
| Trade and other payables | | U.S.\$ 205 | Rs. 13,225 |
| Derivative financial instruments | 8 | 0 | Rs. 22 |
| Current tax liabilities | | 25 | Rs. 1,584 |

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| | | | | |
|---|----|---------------------|-------------------|-------------------|
| Bank overdraft | | 0 | 0 | 87 |
| Short-term borrowings | 12 | 399 | 25,808 | 43,539 |
| Long-term borrowings, current portion | 12 | 1 | 94 | 110 |
| Provisions | | 67 | 4,304 | 4,509 |
| Other current liabilities | | 317 | 20,483 | 21,845 |
| Total current liabilities | | U.S.\$ 1,014 | Rs. 65,520 | Rs. 85,000 |
| Non-current liabilities | | | | |
| Long-term borrowings, excluding current portion | 12 | U.S.\$ 380 | Rs. 24,560 | Rs. 5,449 |
| Provisions non-current | | 1 | 48 | 47 |
| Deferred tax liabilities | | 13 | 842 | 1,204 |
| Other non-current liabilities | | 62 | 3,994 | 4,077 |
| Total non-current liabilities | | U.S.\$ 456 | Rs. 29,444 | Rs. 10,777 |
| Total liabilities | | U.S.\$ 1,470 | Rs. 94,964 | Rs. 95,777 |

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

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

| Particulars | Note | As of | |
|-------------------------------------|------|--|---------------------------------|
| | | June 30, 2017 <i>Convenience translation into U.S.\$ (See Note 2(d))</i> | June 30, 2017 March 31, 2017 |
| Equity | | | |
| Share capital | 15 | U.S.\$ 13 | Rs. 829 |
| Share premium | | 116 | Rs. 7,359 |
| Share based payment reserve | | 15 | Rs. 998 |
| Capital redemption reserve | | 3 | Rs. 173 |
| Retained earnings | | 1,681 | Rs. 108,051 |
| Other components of equity | | 82 | Rs. 6,634 |
| Total equity | | U.S.\$ 1,910 | Rs. 123,423 |
| Total liabilities and equity | | U.S.\$ 3,380 | Rs. 218,387 |

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

Table of Contents**DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED INTERIM INCOME STATEMENTS**

(in millions, except share and per share data)

| Particulars | Note | For the three months ended June 30, | | |
|---|------|--|-------------------|-------------------|
| | | 2017 | 2017 | 2016 |
| | | <i>Convenience translation into U.S.\$ (See Note 2(d))</i> | | |
| Revenues | | U.S.\$ 513 | Rs. 33,159 | Rs. 32,345 |
| Cost of revenues | | 249 | 16,062 | 14,167 |
| Gross profit | | 265 | 17,097 | 18,178 |
| Selling, general and administrative expenses | | 182 | 11,763 | 12,284 |
| Research and development expenses | | 79 | 5,075 | 4,802 |
| Other (income)/expense, net | 13 | (3) | (194) | (96) |
| Total operating expenses | | 258 | 16,644 | 16,990 |
| Results from operating activities | | 7 | 453 | 1,188 |
| Finance income | | 7 | 436 | 593 |
| Finance expense | | (3) | (215) | (148) |
| Finance (expense)/income, net | 14 | 3 | 221 | 445 |
| Share of profit of equity accounted investees, net of tax | | 2 | 98 | 74 |
| Profit before tax | | 12 | 772 | 1,707 |
| Tax expense | 18 | 3 | 181 | 444 |
| Profit for the period | | 9 | 591 | 1,263 |
| Attributable to: | | | | |
| Equity holders of the Company | | 9 | 591 | 1,263 |
| Non-controlling interest | | | | |
| Profit for the period | | U.S.\$ 9 | Rs. 591 | Rs. 1,263 |
| Earnings per share: | | | | |
| Basic earnings per share of Rs.5/- each | | U.S.\$ 0.06 | Rs. 3.57 | Rs. 7.45 |
| Diluted earnings per share of Rs.5/- each | | U.S.\$ 0.06 | Rs. 3.56 | Rs. 7.43 |

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

Table of Contents**DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME**

(in millions, except share and per share data)

| Particulars | For the three months ended June 30, | | |
|--|--|--------------------|------------------|
| | 2017 | 2017 | 2016 |
| | <i>Convenience translation into U.S.\$ (See Note 2(d))</i> | | |
| Profit for the period | U.S.\$ 9 | Rs. 591 | Rs. 1,263 |
| Other comprehensive income/(loss) | | | |
| <i>Items that will not be reclassified to the consolidated income statement:</i> | | | |
| <i>Items that may be reclassified subsequently to the consolidated income statement:</i> | | | |
| Changes in fair value of available for sale financial instruments | U.S.\$ (26) | Rs. (1,676) | Rs. 65 |
| Foreign currency translation adjustments | (2) | (107) | (269) |
| Effective portion of changes in fair value of cash flow hedges, net | 2 | 110 | 357 |
| Tax on items that may be reclassified subsequently to the consolidated income statement | 5 | 350 | (15) |
| Total of items that may be reclassified subsequently to the consolidated income statement | U.S.\$ (20) | Rs. (1,323) | Rs. 138 |
| Other comprehensive income/(loss) for the period, net of tax | U.S.\$ (20) | Rs. (1,323) | Rs. 138 |
| Total comprehensive income/(loss) for the period | U.S.\$ (11) | Rs. (732) | Rs. 1,401 |
| Attributable to: | | | |
| Equityholders of the Company | (11) | (732) | 1,401 |
| Non-controlling interest | | | |
| Total comprehensive income/(loss) for the period | U.S.\$ (11) | Rs. (732) | Rs. 1,401 |

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

Table of Contents**DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY**

(in millions, except share and per share data)

| Particulars | Share capital | | Share premium Amount | Share based payment reserve Amount | Fair value reserve Amount | Capital redemption reserve Amount |
|--|--------------------|----------------|-------------------------|---|------------------------------------|--|
| | Shares | Amount | | | | |
| Balance as of April 1, 2017 (A) | 165,741,713 | Rs. 829 | Rs. 7,359 | Rs. 998 | Rs. 2,744 | Rs. 173 |
| Total comprehensive income | | | | | | |
| Profit for the period | | Rs. | Rs. | Rs. | Rs. | Rs. |
| Net change in fair value of available for sale financial instruments, net of tax benefit of Rs.408 | | | | | (1,268) | |
| Foreign currency translation adjustments, net of tax expense of Rs.20 | | | | | | |
| Effective portion of changes in fair value of cash flow hedges, net of tax expense of Rs.38 | | | | | | |
| Total comprehensive income (B) | | Rs. | Rs. | Rs. | Rs. (1,268) | Rs. |
| Transactions with owners of the Company | | | | | | |
| Contributions and distributions | | | | | | |
| Issue of equity shares on exercise of options | 60,261 | Rs. 0 | Rs. 142 | Rs. (142) | Rs. | Rs. |
| Share based payment expense | | | | 111 | | |
| Total contributions and distributions | 60,261 | Rs. 0 | Rs. 142 | Rs. (31) | Rs. | Rs. |
| Changes in ownership interests | | Rs. | Rs. | Rs. | Rs. | Rs. |

| | | | | | | | | | | |
|---|--------------------|---------------|-------------|---------------|-----------------|---------------|--------------|---------------|--------------|-----------------|
| Total transactions with owners of the Company (C) | 60,261 | Rs. | 0 | Rs. | 142 | Rs. | (31) | Rs. | | Rs. |
| Balance as of June 30, 2017 [(A)+(B)+(C)] | 165,801,974 | Rs. | 829 | Rs. | 7,501 | Rs. | 967 | Rs. | 1,476 | Rs. 173 |
| Convenience translation into U.S.\$ (See Note 2(d)) | | U.S.\$ | 13 | U.S.\$ | 116 | U.S.\$ | 15 | U.S.\$ | 23 | U.S.\$ 3 |
| Balance as of April 1, 2016 (A) | 170,607,653 | Rs. | 853 | Rs. | 22,601 | Rs. | 1,100 | Rs. | 1,034 | Rs. |
| Total comprehensive income | | | | | | | | | | |
| Profit for the period | | Rs. | | Rs. | | Rs. | | Rs. | | Rs. |
| Net change in fair value of available for sale financial instruments, net of tax expense of Rs.27 | | | | | | | | | 38 | |
| Foreign currency translation adjustments, net of tax expense of Rs.0 | | | | | | | | | | |
| Effective portion of changes in fair value of cash flow hedges, net of tax benefit of Rs.12 | | | | | | | | | | |
| Total comprehensive income (B) | | Rs. | | Rs. | | Rs. | | Rs. | 38 | Rs. |
| Transactions with owners of the Company Contributions and distributions | | | | | | | | | | |
| Issue of equity shares on exercise of options | | Rs. | | Rs. | | Rs. | | Rs. | | Rs. |
| Share based payment expense | | | | | | | 69 | | | |
| Buyback of equity shares ⁽¹⁾ | (5,077,504) | | (25) | | (15,669) | | | | | |
| Transfer to capital redemption reserve | | | | | (25) | | | | | 25 |
| Total contributions and distributions | (5,077,504) | Rs. | (25) | Rs. | (15,694) | Rs. | 69 | Rs. | | Rs. 25 |
| Changes in ownership interests | | Rs. | | Rs. | | Rs. | | Rs. | | Rs. |

| | | | | | | | | | | | |
|--|--------------------|------------|-------------|------------|-----------------|------------|--------------|------------|--------------|------------|-----------|
| Total transactions with owners of the Company (C) | (5,077,504) | Rs. | (25) | Rs. | (15,694) | Rs. | 69 | Rs. | Rs. | 25 | |
| Balance as of June 30, 2016 [(A)+(B)+(C)] | 165,530,149 | Rs. | 828 | Rs. | 6,907 | Rs. | 1,169 | Rs. | 1,072 | Rs. | 25 |

[Continued on next page]

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

Table of Contents**DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY**

(in millions, except share and per share data)

[Continued from above table, first column repeated]

| Particulars | Foreign currency translation reserve Amount | Hedging reserve Amount | Retained earnings Amount | Actuarial gains/(losses) Amount | Total Amount |
|---|--|---------------------------------------|---|--|-------------------------|
| Balance as of April 1, 2017 | | | | | |
| (A) | Rs. 4,233 | Rs. 86 | Rs. 108,051 | Rs. (429) | Rs. 124,044 |
| Total comprehensive income | | | | | |
| Profit for the period | Rs. | Rs. | Rs.591 | Rs. | Rs.591 |
| Net change in fair value of available for sale financial instruments, net of tax benefit of Rs.408 | | | | | (1,268) |
| Foreign currency translation adjustments, net of tax expense of Rs.20 | (127) | | | | (127) |
| Effective portion of changes in fair value of cash flow hedges, net of tax expense of Rs.38 | | 72 | | | 72 |
| Total comprehensive income | | | | | |
| (B) | Rs. (127) | Rs. 72 | Rs. 591 | Rs. | Rs. (732) |
| Transactions with owners of the Company | | | | | |
| Contributions and distributions | | | | | |
| Issue of equity shares on exercise of options | Rs. | Rs. | Rs. | Rs. | Rs. |
| Share based payment expense | | | | | 111 |
| Total contributions and distributions | Rs. | Rs. | Rs. | Rs. | Rs.111 |
| Changes in ownership interests | Rs. | Rs. | Rs. | Rs. | Rs. |
| | Rs. | Rs. | Rs. | Rs. | Rs. 111 |

Total transactions with owners of the Company (C)

| | | | | | |
|--|------------------|----------------|--------------------|------------------|--------------------|
| Balance as of June 30, 2017 [(A)+(B)+(C)] | Rs. 4,106 | Rs. 158 | Rs. 108,642 | Rs. (429) | Rs. 123,423 |
|--|------------------|----------------|--------------------|------------------|--------------------|

| | | | | | |
|--|------------------|-----------------|---------------------|-------------------|---------------------|
| Convenience translation into U.S.\$ (See Note 2(d)) | U.S.\$ 64 | U.S.\$ 2 | U.S.\$ 1,681 | U.S.\$ (7) | U.S.\$ 1,910 |
|--|------------------|-----------------|---------------------|-------------------|---------------------|

| | | | | | |
|--|------------------|------------------|-------------------|------------------|--------------------|
| Balance as of April 1, 2016 (A) | Rs. 4,424 | Rs. (822) | Rs. 99,550 | Rs. (404) | Rs. 128,336 |
|--|------------------|------------------|-------------------|------------------|--------------------|

Total comprehensive income

| | | | | | |
|-----------------------|-----|-----|-----------|-----|-----------|
| Profit for the period | Rs. | Rs. | Rs. 1,263 | Rs. | Rs. 1,263 |
|-----------------------|-----|-----|-----------|-----|-----------|

| | | | | | |
|---|--|--|--|--|----|
| Net change in fair value of available for sale financial instruments, net of tax expense of Rs.27 | | | | | 38 |
|---|--|--|--|--|----|

| | | | | | |
|--|-------|--|--|--|-------|
| Foreign currency translation adjustments, net of tax expense of Rs.0 | (269) | | | | (269) |
|--|-------|--|--|--|-------|

| | | | | | |
|---|--|-----|--|--|-----|
| Effective portion of changes in fair value of cash flow hedges, net of tax benefit of Rs.12 | | 369 | | | 369 |
|---|--|-----|--|--|-----|

| | | | | | |
|---------------------------------------|------------------|----------------|------------------|------------|------------------|
| Total comprehensive income (B) | Rs. (269) | Rs. 369 | Rs. 1,263 | Rs. | Rs. 1,401 |
|---------------------------------------|------------------|----------------|------------------|------------|------------------|

Transactions with owners of the Company**Contributions and distributions**

| | | | | | |
|---|-----|-----|-----|-----|----------|
| Issue of equity shares on exercise of options | Rs. | Rs. | Rs. | Rs. | Rs. |
| Share based payment expense | | | | | 69 |
| Buyback of equity shares ⁽¹⁾ | | | | | (15,694) |
| Transfer to capital redemption reserve | | | | | |

| | | | | | |
|--|------------|------------|------------|------------|---------------------|
| Total contributions and distributions | Rs. | Rs. | Rs. | Rs. | Rs. (15,625) |
|--|------------|------------|------------|------------|---------------------|

| | | | | | |
|---------------------------------------|------------|------------|------------|------------|------------|
| Changes in ownership interests | Rs. | Rs. | Rs. | Rs. | Rs. |
|---------------------------------------|------------|------------|------------|------------|------------|

| | | | | | |
|--|------------|------------|------------|------------|---------------------|
| Total transactions with owners of the Company (C) | Rs. | Rs. | Rs. | Rs. | Rs. (15,625) |
|--|------------|------------|------------|------------|---------------------|

| | | | | | |
|--|------------------|------------------|--------------------|------------------|--------------------|
| Balance as of June 30, 2016 [(A)+(B)+(C)] | Rs. 4,155 | Rs. (453) | Rs. 100,813 | Rs. (404) | Rs. 114,112 |
|--|------------------|------------------|--------------------|------------------|--------------------|

(1) Refer to Note 15 of these unaudited condensed consolidated interim financial statements.
The accompanying notes form an integral part of these unaudited condensed consolidated interim financial statements.

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

| Particulars | Note | For the three months ended June 30, | | |
|--|------|--|--------------------|------------------|
| | | 2017 | 2017 | 2016 |
| | | <i>Convenience translation into U.S.\$ (See Note 2(d))</i> | | |
| Cash flows from/(used in) operating activities: | | | | |
| Profit for the period | | U.S.\$ 9 | Rs. 591 | Rs. 1,263 |
| <i>Adjustments for:</i> | | | | |
| Income tax expense | | 3 | 181 | 444 |
| Dividend and profit on sale of investments | | (4) | (283) | (286) |
| Depreciation and amortization | | 43 | 2,799 | 2,681 |
| Inventory write-downs | | 11 | 718 | 663 |
| Allowance for doubtful trade and other receivables | | (0) | (10) | 66 |
| Loss on sale of property, plant and equipment and other intangible assets, net | | 0 | 4 | 4 |
| Allowance for sales returns | | 13 | 850 | 476 |
| Share of profit of equity accounted investees | | (2) | (98) | (74) |
| Exchange (gain)/loss, net | | (16) | (1,048) | 306 |
| Interest (income)/expense, net | | 1 | 72 | (123) |
| Share based payment expense | | 2 | 120 | 77 |
| <i>Changes in operating assets and liabilities:</i> | | | | |
| Trade and other receivables | | (48) | (3,111) | 6,683 |
| Inventories | | (3) | (167) | (3,056) |
| Trade and other payables | | (1) | (46) | 803 |
| Other assets and other liabilities | | (34) | (2,191) | (4,104) |
| Cash generated/(used in) operations | | U.S.\$ (25) | Rs. (1,619) | Rs. 5,823 |
| Income tax paid | | (6) | (360) | (769) |
| Net cash from/(used in) operating activities | | U.S.\$ (31) | Rs. (1,979) | Rs. 5,054 |
| Cash flows from/(used in) investing activities: | | | | |
| Expenditures on property, plant and equipment | | U.S.\$ (43) | Rs. (2,755) | Rs. (3,240) |
| Proceeds from sale of property, plant and equipment | | 0 | 30 | 4 |
| Expenditures on other intangible assets | | (5) | (304) | (4,557) |
| Investment in equity accounted investees | | | | (47) |
| Purchase of other investments | | (82) | (5,308) | (13,222) |
| Proceeds from sale of other investments | | 124 | 8,028 | 29,428 |

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| | | | | |
|--|---------------|------------------|------------------|---------------------|
| Interest and dividend received | | 1 | 82 | 379 |
| Net cash from/(used in) investing activities | U.S.\$ | (4) | Rs. (227) | Rs. 8,745 |
| Cash flows from/(used in) financing activities: | | | | |
| Proceeds from issuance of equity shares | U.S.\$ | 0 | Rs. 0 | Rs. |
| Buyback of equity shares | | | | (15,694) |
| Proceeds from/(repayment of) short-term borrowings, net | | (268) | (17,350) | 3,538 |
| Proceeds from/(repayment of) long-term borrowings, net | | 293 | 18,950 | (28) |
| Interest paid | | (5) | (309) | (108) |
| Net cash from/(used in) financing activities | U.S.\$ | 20 | Rs. 1,291 | Rs. (12,292) |
| Net increase/(decrease) in cash and cash equivalents | | (14) | (915) | 1,507 |
| Effect of exchange rate changes on cash and cash equivalents | | (1) | (39) | (94) |
| Cash and cash equivalents at the beginning of the period | 4 | 58 | 3,779 | 4,921 |
| Cash and cash equivalents at the end of the period | 4 | U.S.\$ 44 | Rs. 2,825 | Rs. 6,334 |

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in millions, except share and per share data and where otherwise stated)

1. Reporting entity

Dr. Reddy s Laboratories Limited (the parent company), together with its subsidiaries, associates and joint ventures (collectively, the Company), is a leading India-based pharmaceutical company headquartered in Hyderabad, Telangana, India. Through its three businesses Global Generics, Pharmaceutical Services and Active Ingredients, and Proprietary Products the Company offers a portfolio of products and services, including Active Pharmaceutical Ingredients (APIs), Custom Pharmaceutical Services (CPS), generics, biosimilars and differentiated formulations. The Company s principal research and development facilities are located in the states of Telangana and Andhra Pradesh in India, Cambridge in the United Kingdom and Leiden in the Netherlands; its principal manufacturing facilities are located in the states of Telangana, Andhra Pradesh and Himachal Pradesh in India, Cuernavaca-Cuautla in Mexico, Mirfield in the United Kingdom, and Louisiana and Tennessee in the United States; and its principal markets are in India, Russia, the United States, the United Kingdom, and Germany. The Company s shares trade on the Bombay Stock Exchange and the National Stock Exchange in India and also on the New York Stock Exchange in the United States.

2. Basis of preparation of financial statements

a) Statement of compliance

These unaudited condensed consolidated interim financial statements (hereinafter referred to as interim financial statements) are prepared in accordance with IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board (IASB). They do not include all of the information required for a complete set of annual financial statements and should be read in conjunction with the audited consolidated financial statements and related notes included in the Company s Annual Report on Form 20-F for the fiscal year ended March 31, 2017. These interim financial statements were authorized for issuance by the Company s Board of Directors on August 8, 2017.

b) Significant accounting policies

The accounting policies applied by the Company in these interim financial statements are the same as those applied by the Company in its audited consolidated financial statements as at and for the year ended March 31, 2017 contained in the Company s Annual Report on Form 20-F.

c) Basis of measurement

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

derivative financial instruments are measured at fair value;

available for sale financial assets are measured at fair value;

employee defined benefit assets/(liability) are recognized as the net total of the fair value of plan assets adjusted for actuarial losses and gains and the present value of the defined benefit obligation;

long term borrowings, except obligations under finance leases, are measured at amortized cost using the effective interest rate method; and

investments in joint ventures are accounted for using the equity method.

d) Convenience translation

These interim financial statements have been prepared in Indian rupees. Solely for the convenience of the reader, these interim financial statements as of and for the three months ended June 30, 2017 have been translated into U.S. dollars at the certified foreign exchange rate of U.S.\$1.00 = Rs.64.62, as published by the Federal Reserve Board of Governors on June 30, 2017. No representation is made that the Indian rupee amounts have been, could have been or could be converted into U.S. dollars at such a rate or any other rate. Such convenience translation is not subject to review by the Company's independent auditors.

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in millions, except share and per share data and where otherwise stated)

2. Basis of preparation of financial statements (continued)

e) Functional and presentation currency

These interim financial statements are presented in Indian rupees, which is the functional currency of the parent company. All financial information presented in Indian rupees has been rounded to the nearest million.

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

In respect of subsidiaries whose operations are self-contained and integrated within their respective countries/regions, the functional currency has been generally determined to be the local currency of those countries/regions, unless use of a different currency is considered appropriate.

f) Use of estimates and judgments

The preparation of interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. In preparing these interim financial statements, excepting the change as mentioned below, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the audited consolidated financial statements as at and for the year ended March 31, 2017.

g) Recent accounting pronouncements

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

IFRS 9, Financial instruments

In July 2014, the IASB issued the final version of IFRS 9, Financial instruments . IFRS 9 significantly differs from IAS 39, Financial Instruments: Recognition and Measurement , and includes a logical model for classification and measurement, a single, forward-looking expected loss impairment model and a substantially-reformed approach to

hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The new Standard will materially impact the classification and measurement of the Company's financial instruments, documentation relating to hedging financial exposures and recognition of certain fair value changes.

IFRS 15, Revenue from Contracts with Customers.

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

The new revenue recognition standard was issued with an effective date of January 1, 2017. However, in April 2015, the IASB voted to defer the effective date of the new revenue recognition standard to January 1, 2018. Early application of the new standard is permitted. The Company is in the process of evaluating the impact of the new standard on its consolidated financial statements.

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in millions, except share and per share data and where otherwise stated)

2. Basis of preparation of financial statements (continued)

g) Recent accounting pronouncements (continued)

IFRS 16, Leases

In January 2016, the IASB issued a new standard, IFRS 16, *Leases*. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17, *Leases*, and related interpretations and is effective for periods beginning on or after January 1, 2019. Earlier adoption of IFRS 16 is permitted if IFRS 15, *Revenue from Contracts with Customers*, has also been applied.

The Company is currently in the process of evaluating the impact of this new accounting standard on its consolidated financial statements.

IFRIC 22, Foreign Currency Transactions and Advance Consideration

In December 2016, the IASB issued IFRIC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*, which addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency. IFRIC Interpretation 22 is effective for annual reporting periods beginning on or after January 1, 2018. Earlier application is permitted. The Company is currently in the process of evaluating the impact of this change in the accounting standard on its consolidated financial statements.

IFRIC 23, Uncertainty over Income Tax treatments

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

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

liabilities, tax losses and credits and tax rates.

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

retrospectively applying IAS 8, if possible without the use of hindsight; or

retrospectively, with the cumulative effect of initially applying the interpretation recognized at the date of initial application as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate).

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

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in millions, except share and per share data and where otherwise stated)

3. Segment reporting

The Chief Operating Decision Maker (CODM) evaluates the Company s performance and allocates resources based on an analysis of various performance indicators by operating segments. The CODM reviews revenue and gross profit as the performance indicator for all of the operating segments, and does not review the total assets and liabilities of an operating segment. The Chief Executive Officer is the CODM of the Company.

The Company s reportable operating segments are as follows:

Global Generics;

Pharmaceutical Services and Active Ingredients (PSAI); and

Proprietary Products.

Global Generics. This segment consists of the Company s business of manufacturing and marketing prescription and over-the-counter finished pharmaceutical products ready for consumption by the patient, marketed under a brand name (branded formulations) or as generic finished dosages with therapeutic equivalence to branded formulations (generics). This segment includes the operations of the Company s biologics business.

Pharmaceutical Services and Active Ingredients. This segment consists of the Company s business of manufacturing and marketing active pharmaceutical ingredients and intermediates, also known as API or bulk drugs, which are the principal ingredients for finished pharmaceutical products. Active pharmaceutical ingredients and intermediates become finished pharmaceutical products when the dosages are fixed in a form ready for human consumption such as a tablet, capsule or liquid using additional inactive ingredients. This segment also includes the Company s contract research services business and the manufacture and sale of active pharmaceutical ingredients and steroids in accordance with the specific customer requirements.

Proprietary Products. This segment consists of the Company s business that focuses on the research, development, and manufacture of differentiated formulations. These products fall within the dermatology and neurology therapeutic areas and are marketed and sold through Promius® Pharma, LLC.

Others. This includes the operations of the Company s wholly-owned subsidiary, Aurigene Discovery Technologies Limited, a discovery stage biotechnology company developing novel and best-in-class therapies in the fields of oncology and inflammation and which works with established pharmaceutical and biotechnology companies in early-stage collaborations, bringing drug candidates from hit generation to pre-clinical development.

The measurement of each segment's revenues and expenses is consistent with the accounting policies that are used in preparation of the Company's consolidated financial statements.

| Information about segments: | For the three months ended June 30, 2017 | | | | |
|---|--|------------------|----------------------|----------------|-------------------|
| | Global Generics | PSAI | Proprietary Products | Others | Total |
| Segments | | | | | |
| Revenues ⁽¹⁾ | Rs. 27,455 | Rs. 4,651 | Rs. 512 | Rs. 541 | Rs. 33,159 |
| Gross profit | Rs. 15,836 | Rs. 533 | Rs. 418 | Rs. 310 | Rs. 17,097 |
| Selling, general and administrative expenses | | | | | 11,763 |
| Research and development expenses | | | | | 5,075 |
| Other (income)/expense, net | | | | | (194) |
| Results from operating activities | | | | | Rs. 453 |
| Finance (expense)/income, net | | | | | 221 |
| Share of profit of equity accounted investees, net of tax | | | | | 98 |
| Profit before tax | | | | | Rs. 772 |
| Tax expense | | | | | 181 |
| Profit for the period | | | | | Rs. 591 |

⁽¹⁾ Revenues for the three months ended June 30, 2017 do not include inter-segment revenues from the PSAI segment to the Global Generics segment, which are accounted for at a cost of Rs.1,239.

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(in millions, except share and per share data and where otherwise stated)

3. Segment reporting (continued)**Information about segments:**

| Segments | For the three months ended June 30, 2016 | | | | |
|---|--|------------------|-------------------------|----------------|-------------------|
| | Global Generics | PSAI | Proprietary Products | Others | Total |
| Revenues ⁽¹⁾ | Rs. 26,638 | Rs. 4,692 | Rs. 620 | Rs. 395 | Rs. 32,345 |
| Gross profit | Rs. 16,339 | Rs. 1,131 | Rs. 525 | Rs. 183 | Rs. 18,178 |
| Selling, general and administrative expenses | | | | | 12,284 |
| Research and development expenses | | | | | 4,802 |
| Other (income)/expense, net | | | | | (96) |
| Results from operating activities | | | | | Rs. 1,188 |
| Finance (expense)/income, net | | | | | 445 |
| Share of profit of equity accounted investees, net of tax | | | | | 74 |
| Profit before tax | | | | | Rs. 1,707 |
| Tax expense | | | | | 444 |
| Profit for the period | | | | | Rs. 1,263 |

(1) Revenues for the three months ended June 30, 2016 do not include inter-segment revenues from the PSAI segment to the Global Generics segment, which are accounted for at a cost of Rs.1,562.

Analysis of revenues by geography:

The following table shows the distribution of the Company's revenues by country, based on the location of the customers:

| Country | For the three months ended June 30, | |
|---------------|-------------------------------------|-------------------|
| | 2017 | 2016 |
| India | Rs. 6,075 | Rs. 5,599 |
| United States | 16,301 | 16,822 |
| Russia | 3,461 | 2,336 |
| Others | 7,322 | 7,588 |
| | Rs. 33,159 | Rs. 32,345 |

4. Cash and cash equivalents

Cash and cash equivalents consist of the following:

| | June 30, 2017 | As of March 31, 2017 |
|---|------------------|-------------------------|
| Cash balances | Rs. 2 | Rs. 3 |
| Balances with banks | 1,380 | 1,131 |
| Term deposits with banks (original maturities up to 3 months) | 1,443 | 2,732 |
| Cash and cash equivalents in the statement of financial position | 2,825 | 3,866 |
| Bank overdrafts used for cash management purposes | 0 | 87 |
| Cash and cash equivalents in the statement of cash flow | Rs. 2,825 | Rs. 3,779 |

Cash and cash equivalents included restricted cash of Rs.97 and Rs.177 respectively, as of June 30, 2017 and March 31, 2017, which consisted of:

Rs.62 as of June 30, 2017 and Rs.64 as of March 31, 2017, representing amounts in the Company's unclaimed dividend and debenture interest accounts;

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(in millions, except share and per share data and where otherwise stated)

4. Cash and cash equivalents (continued)

Rs.9 as of June 30, 2017 and Rs.38 as of March 31, 2017, representing cash and cash equivalents of the Company's subsidiary in Venezuela, which are subject to foreign exchange controls (refer to Note 25 of these interim financial statements for further details);

Rs.0 as of June 30, 2017 and Rs.49 as of March 31, 2017, representing the portion of the purchase consideration deposited in an escrow account, pursuant to an acquisition of an intangible asset; and

Rs.26 as of June 30, 2017 and Rs.26 as of March 31, 2017, representing other restricted cash amounts.

5. Other investments

Other investments consist of investments in units of mutual funds, equity securities and term deposits (i.e., certificates of deposit having an original maturity period exceeding 3 months) with banks. The details of such investments as of June 30, 2017 were as follows:

| | Cost | Gain recognized directly in equity | Fair value |
|--|-------------------|---------------------------------------|-------------------|
| Investment in units of mutual funds | Rs. 7,417 | Rs. 1,381 | Rs. 8,798 |
| Investment in equity securities ⁽¹⁾ | 2,703 | 666 | 3,369 |
| Term deposits with banks | 3,229 | | 3,229 |
| | Rs. 13,349 | Rs. 2,047 | Rs. 15,396 |
| Current portion | | | |
| Investment in units of mutual funds | Rs. 7,204 | Rs. 1,328 | Rs. 8,532 |
| Term deposits with banks | 3,216 | | 3,216 |
| | Rs. 10,420 | Rs. 1,328 | Rs. 11,748 |
| Non-current portion | | | |
| Investment in units of mutual funds | Rs. 213 | Rs. 53 | Rs. 266 |
| Investment in equity securities ⁽¹⁾ | 2,703 | 666 | 3,369 |
| Term deposits with banks | 13 | | 13 |

| | | |
|------------------|----------------|------------------|
| Rs. 2,929 | Rs. 719 | Rs. 3,648 |
|------------------|----------------|------------------|

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

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

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

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

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Inventories consist of the following:

| | As of | |
|--------------------------------------|-------------------|-------------------|
| | June 30, 2017 | March 31, 2017 |
| Raw materials | Rs. 6,992 | Rs. 7,226 |
| Packing materials, stores and spares | 2,360 | 2,315 |
| Work-in-progress | 7,041 | 6,614 |
| Finished goods | 11,702 | 12,374 |
| | Rs. 28,095 | Rs. 28,529 |

The above table includes inventories of Rs.628 and Rs.624, which were carried at fair value less cost to sell as at June 30, 2017 and March 31, 2017, respectively.

During the three months ended June 30, 2017 and 2016, the Company recorded inventory write-downs of Rs.718 and Rs.663, respectively. These adjustments were included in cost of revenues.

Cost of revenues for the three months ended June 30, 2017 and 2016 includes raw materials, consumables and changes in finished goods and work in progress recognized in the income statement of Rs.7,748 and Rs.6,601, respectively. Cost of revenues for the three months ended June 30, 2017 and 2016 includes other expenditures recognized in the income statement of Rs.8,314 and Rs.7,566, respectively.

7. Hedges of foreign currency exchange rate risks

The Company is exposed to exchange rate risk that arises from its foreign exchange revenues and expenses, primarily in U.S. dollars, U.K. pounds sterling, Russian roubles, Romanian new leus and Euros, and foreign currency debt in U.S. dollars, Russian roubles, Ukrainian hryvnias and Euros. The Company uses forward contracts, option contracts and currency swap contracts (collectively, derivatives) to mitigate its risk of changes in foreign currency exchange rates. The Company also uses non-derivative financial instruments as part of its foreign currency exposure risk mitigation strategy.

In respect of all of its foreign exchange derivative contracts, the Company has recorded, as part of finance costs, a net gain of Rs.82 and a net loss of Rs.97, for the three months ended June 30, 2017 and 2016, respectively.

Hedges of highly probable forecast transactions

The Company classifies its derivative contracts that hedge foreign exchange risk associated with its highly probable forecast transactions as cash flow hedges and measures them at fair value. The effective portion of such cash flow hedges is recorded as a component of equity within the Company's hedging reserve, and re-classified to the consolidated income statement as revenue in the period corresponding to the occurrence of the forecast transactions. The ineffective portion of such cash flow hedges is immediately recorded in the consolidated income statement as a finance cost.

The Company also designates certain non-derivative financial liabilities, such as foreign currency borrowings from banks, as hedging instruments for the hedge of foreign exchange risk associated with highly probable forecast transactions and, accordingly, applies cash flow hedge accounting for such relationships. Re-measurement gain/loss on such non-derivative financial liabilities is recorded as a component of equity within the Company's hedging reserve, and re-classified in the consolidated income statement as revenue in the period corresponding to the occurrence of the forecast transactions.

In respect of the aforesaid hedges of highly probable forecast transactions, the Company recorded, as a component of equity, a net gain of Rs.110 and Rs.357 for the three months ended June 30, 2017 and 2016, respectively.

The Company also recorded, as a component of revenue, a net gain of Rs.133 and a net loss of Rs.447 during the three months ended June 30, 2017 and 2016, respectively.

The net carrying amount of the Company's hedging reserve as a component of equity before adjusting for tax impact was a gain of Rs.239 as at June 30, 2017, as compared to a gain of Rs.129 as at March 31, 2017.

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(in millions, except share and per share data and where otherwise stated)

7. Hedges of foreign currency exchange rate risks (continued)*Hedges of recognized assets and liabilities*

Changes in the fair value of forward contracts and option contracts that economically hedge monetary assets and liabilities in foreign currencies, and for which no hedge accounting is applied, are recognized in the consolidated income statement. The changes in fair value of such forward contracts and option contracts, as well as the foreign exchange gains and losses relating to the monetary items, are recognized in the consolidated income statement as part of net finance costs .

8. Financial instruments*Non-derivative financial instruments*

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

Derivative financial instruments

The Company uses derivative contracts to mitigate its risk of changes in foreign currency exchange rates. The Company uses interest rate swaps (including cross currency interest rate swaps) to mitigate the risk of changes in interest rates.

Financial instruments by category

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

| | Note | Loans and receivables | Available for sale | Other financial liabilities | Derivative financial instruments | Total carrying value | Total fair value |
|--------------------------------|------|--------------------------|-----------------------|-----------------------------------|--|----------------------------|---------------------|
| Assets: | | | | | | | |
| Cash and cash equivalents | 4 | Rs. 2,825 | Rs. | Rs. | Rs. | Rs. 2,825 | Rs. 2,825 |
| Other investments | 5 | 3,229 | 12,167 | | | 15,396 | 15,396 |
| Trade and other receivables | | 41,350 | | | | 41,350 | 41,350 |

| | | | | | | |
|----------------------------------|-------------------|-------------------|------------|----------------|-------------------|-------------------|
| Derivative financial instruments | | | | 319 | 319 | 319 |
| Other assets ⁽¹⁾ | 1,723 | | | | 1,723 | 1,723 |
| Total | Rs. 49,127 | Rs. 12,167 | Rs. | Rs. 319 | Rs. 61,613 | Rs. 61,613 |

Liabilities:

| | | | | | | |
|---|------------|------------|-------------------|---------------|-------------------|-------------------|
| Trade and other payables | Rs. | Rs. | Rs. 13,225 | Rs. | Rs. 13,225 | Rs. 13,225 |
| Derivative financial instruments | | | | 22 | 22 | 22 |
| Long-term borrowings | 12 | | 24,793 | | 24,793 | 24,793 |
| Short-term borrowings | 12 | | 25,808 | | 25,808 | 25,808 |
| Bank overdraft | 4 | | 0 | | 0 | 0 |
| Other liabilities and provisions ⁽²⁾ | | | 20,093 | | 20,093 | 20,093 |
| Total | Rs. | Rs. | Rs. 83,919 | Rs. 22 | Rs. 83,941 | Rs. 83,941 |

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(in millions, except share and per share data and where otherwise stated)

8. Financial instruments (continued)

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

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

(1) Other assets that are not financial assets (such as receivables from statutory authorities, export benefit receivables, prepaid expenses, advances paid and certain other receivables) of Rs.15,160 and Rs.14,450 as of

June 30, 2017 and March 31, 2017, respectively, are not included.

- (2) Other liabilities that are not financial liabilities (such as statutory dues payable, deferred revenue, advances from customers and certain other accruals) of Rs.10,320 and Rs.11,570 as of June 30, 2017 and March 31, 2017, respectively, are not included.

Fair value hierarchy

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

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

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

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

| Particulars | Level 1 | Level 2 | Level 3 | Total |
|---|----------------|----------------|----------------|--------------|
| Available for sale - Financial asset - Investments in units of mutual funds | Rs. 8,798 | Rs. | Rs. | Rs. 8,798 |
| Available for sale - Financial asset - Investment in equity securities | 3,369 | | | 3,369 |
| Derivative financial instruments - net gain/(loss) on outstanding foreign exchange forward, option and swap contracts and interest rate swap contracts ⁽¹⁾ | | 297 | | 297 |

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

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

⁽¹⁾ The Company enters into derivative contracts with various counterparties, principally financial institutions and banks. Derivatives valued using valuation techniques with market observable inputs are mainly interest rate swaps, foreign exchange forward option and swap contracts. The most frequently applied valuation techniques include forward pricing, swap models and Black-Scholes-Merton models (for option valuation), using present value calculations.

The models incorporate various inputs including foreign exchange spot and forward rates, interest rate curves and forward rate curves. As at June 30, 2017 and March 31, 2017, the changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognized at fair value.

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

During the three months ended June 30, 2017, the Company acquired assets at an aggregate cost of Rs.2,370 (as compared to a cost of Rs.2,765 and Rs.11,622 for the three months ended June 30, 2016 and the year ended March 31, 2017, respectively).

Assets with a net book value of Rs.34 were disposed of during the three months ended June 30, 2017 (as compared to Rs.8 and Rs.62 for the three months ended June 30, 2016 and the year ended March 31, 2017, respectively), resulting in a net loss on disposal of Rs.4 for the three months ended June 30, 2017 (as compared to net loss of Rs.4 and Rs.80 for the three months ended June 30, 2016 and the year ended March 31, 2017, respectively).

Depreciation expense for the three months ended June 30, 2017 and 2016 was Rs.2,008 and Rs.1,760, respectively.

Capital commitments

As of June 30, 2017 and March 31, 2017, the Company was committed to spend Rs.4,389 and Rs.5,256, respectively, under agreements to purchase property, plant and equipment. This amount is net of capital advances paid in respect of such purchase commitments.

10. Goodwill

Goodwill arising on business combinations is not amortized but tested for impairment at least annually or more frequently if there is any indication that the cash generating unit to which goodwill is allocated is impaired.

The following table presents the changes in goodwill during the three months ended June 30, 2017 and the year ended March 31, 2017:

| | June 30, 2017 | As of March 31, 2017 |
|--|----------------------|---------------------------------|
| Opening balance, gross ⁽¹⁾ | Rs. 20,026 | Rs. 20,122 |
| Goodwill arising on business combinations during the period ⁽²⁾ | | 10 |
| Effect of translation adjustments | 72 | (106) |
| Impairment loss ⁽³⁾ | (16,274) | (16,274) |
| Closing balance⁽¹⁾ | Rs. 3,824 | Rs. 3,752 |

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- (1) This does not include goodwill arising upon investment in an associate of Rs.181, which is included in the carrying value of the investment in equity accounted investees.
- (2) Rs.10 as of March 31, 2017 represents goodwill arising from the acquisition of Imperial Credit Private Limited.
- (3) The impairment loss of Rs.16,274 includes Rs.16,003 pertaining to the Company's German subsidiary, betapharm Arzneimittel GmbH, which is part of the Company's Global Generics segment. This impairment loss was recorded during the years ended March 31, 2009 and 2010.

11. Other intangible assets

During the three months ended June 30, 2017, the Company acquired intangible assets at an aggregate cost of Rs.551 (as compared to a cost of Rs.4,555 and Rs.29,205 for the three months ended June 30, 2016 and for the year ended March 31, 2017, respectively).

Additions to intangible assets during the year ended March 31, 2017 primarily consisted of: (a) Rs.23,366, representing the consideration paid to Teva Pharmaceutical Industries Limited to acquire eight Abbreviated New Drug Applications (ANDAs) in the United States (refer to Note 27 of these interim financial statements for further details); and (b) Rs.3,159, representing the consideration for the acquisition from XenoPort, Inc. of exclusive U.S. rights for the development and commercialization of a clinical stage oral new chemical entity (refer to Note 26 of these interim financial statements for further details).

Amortization of other intangible assets:

| | For the three months ended June 30, | |
|--|--|----------------|
| | 2017 | 2016 |
| Selling, general and administrative expenses | Rs. 698 | Rs. 804 |
| Cost of revenues | 60 | 75 |
| Research and development expenses | 33 | 42 |
| | Rs. 791 | Rs. 921 |

12. Loans and borrowings***Short-term borrowings***

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The Company had net short-term borrowings of Rs.25,808 as of June 30, 2017, as compared to Rs.43,539 as of March 31, 2017. The borrowings primarily consist of packing credit loans drawn by the parent company and other unsecured loans drawn by certain of its subsidiaries in Switzerland, Germany, the United States, Russia and Ukraine.

Short-term borrowings consist of the following:

| | As at | |
|-----------------------------------|----------------------|-----------------------|
| | June 30, 2017 | March 31, 2017 |
| Packing credit borrowings | Rs. 19,160 | Rs. 18,699 |
| Other foreign currency borrowings | 6,648 | 24,840 |
| | Rs. 25,808 | Rs. 43,539 |

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(in millions, except share and per share data and where otherwise stated)

12. Loans and borrowings (continued)**Short-term borrowings (continued)**

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

| | June 30, 2017 | | As at March 31, 2017 | |
|-----------------------------------|-----------------|-----------------------|-------------------------|-----------------------|
| | Currency (1) | Interest Rate | Currency | Interest Rate |
| Packing credit borrowings | USD | LIBOR + (30) to 1 bps | USD | LIBOR + (30) to 1 bps |
| | | | USD | 0.01% |
| | INR | T-Bill + 30bps | INR | T-Bill + 30bps |
| | INR | 6.92% to 6.95% | INR | 6.92% to 6.95% |
| | RUB | 9.95% | RUB | 9.95% |
| Other foreign currency borrowings | USD | LIBOR + 75 to 85 bps | USD | LIBOR + 40 to 60 bps |
| | RUB | 10.48% | RUB | 10.48% |
| | UAH | 11.70% to 11.80% | | |

(1) INR means Indian Rupees, RUB means Russian roubles, and UAH means Ukrainian hryvnia.
Short-term borrowing by Dr. Reddy s Laboratories, SA

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

Long-term borrowings

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

| | June 30, 2017 | As at March 31, 2017 |
|--|----------------------|---------------------------------|
| Foreign currency borrowing by the parent company | Rs. 4,833 | Rs. 4,852 |
| Foreign currency borrowing by the Swiss Subsidiary | 16,016 | |
| Foreign currency borrowing by the Company's German subsidiary Reddy Holding GMBH | 3,095 | |
| Obligations under finance leases | 710 | 707 |
| | Rs. 24,654 | Rs. 5,559 |

Current portion

| | | |
|----------------------------------|---------------|----------------|
| Obligations under finance leases | Rs. 94 | Rs. 110 |
| | Rs. 94 | Rs. 110 |

Non-current portion

| | | |
|--|-------------------|------------------|
| Foreign currency borrowing by the parent company | Rs. 4,833 | Rs. 4,852 |
| Foreign currency borrowing by the Swiss Subsidiary | 16,016 | |
| Foreign currency borrowing by the Company's German subsidiary Reddy Holding GMBH | 3,095 | |
| Obligations under finance leases | 616 | 597 |
| | Rs. 24,560 | Rs. 5,449 |

Long-term bank loan of the parent company

During the year ended March 31, 2014, the Company borrowed the sum of U.S.\$150. The Company was required to repay the loan in five equal quarterly installments commencing at the end of the 54th month and continuing until the end of the 66th month from August 12, 2013. During the three months ended December 31, 2016, the Company entered into a financing arrangement with certain financial institutions to refinance the aforementioned borrowing of U.S.\$150.

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(in millions, except share and per share data and where otherwise stated)

12. Loans and borrowings (continued)*Long-term borrowings (continued)*

The Company repaid U.S.\$75 of this loan on November 28, 2016, and is required to repay the U.S.\$75 balance of the loan in 3 equal installments at the end of the 40th month, 43rd month and 46th month after the date the loan was made.

The loan agreement imposes various financial covenants on the Company. As of June 30, 2017, the Company was in compliance with all such financial covenants.

Long-term bank loan of subsidiary companies:

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

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

| | As at | | | |
|-----------------------------|---------------|-----------------------|----------------|------------------|
| | June 30, 2017 | | March 31, 2017 | |
| | Currency | Interest Rate | Currency | Interest Rate |
| Foreign currency borrowings | USD | LIBOR + 45 to 135 bps | USD | LIBOR + 82.7 bps |
| | EUR | | | 0.81% |

Undrawn lines of credit from banks

The Company had undrawn lines of credit of Rs.20,141 and Rs.21,156 as of June 30, 2017 and March 31, 2017, respectively, from its banks for working capital requirements. The Company has the right to draw upon these lines of credit based on its working capital requirements.

13. Other (income)/expense, net

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

| | For the three months ended June 30, | | | |
|---|--|--------------|-------------|-------------|
| | 2017 | | 2016 | |
| Loss on sale/disposal of property, plant and equipment and other intangibles, net | Rs. | 4 | Rs. | 4 |
| Sale of spent chemicals | | (59) | | (49) |
| Miscellaneous income, net | | (139) | | (51) |
| | Rs. | (194) | Rs. | (96) |

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

| | For the three months ended June 30, | | | |
|---|--|------------|-------------|------------|
| | 2017 | | 2016 | |
| Interest income | Rs. | 143 | Rs. | 271 |
| Dividend and profit on sale of other investments (1) | | 283 | | 286 |
| Foreign exchange gain/(loss), net | | 10 | | 36 |
| Interest expense | | (215) | | (148) |
| | Rs. | 221 | Rs. | 445 |

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

15. Share capital and share premium

During the three months ended June 30, 2017 and 2016, there were 60,261 and 0 equity shares, respectively, issued as a result of the exercise of vested options granted to employees pursuant to the Dr. Reddy's Employees Stock Option Plan-2002 and Dr. Reddy's Employees Stock Option Plan-2007. All of the options exercised had an exercise price of Rs.5, being equal to the par value of the underlying shares. Upon the exercise of such options, the amount of compensation cost (computed using the grant date fair value) previously recognized in the share based payment reserve was transferred to share premium in the unaudited condensed consolidated statements of changes in equity.

Buyback of equity shares

The Board of Directors of the Company, in their meeting held on February 17, 2016, approved a proposal to buy back equity shares of the Company, subject to approval by the Company's shareholders, for an aggregate amount not exceeding Rs.15,694 and at a price not exceeding Rs.3,500 per equity share. The plan involved the purchase of such shares from shareholders of the Company (including persons who become shareholders by cancelling American Depository Shares and receiving underlying equity shares, and excluding the promoters and promoter group of the Company) under the open market route in accordance with the provisions contained in the Securities and Exchange Board of India (Buy Back of Securities) Regulations, 1998 and the Companies Act, 2013 and rules made thereunder.

The shares bought back under this plan were required to be extinguished in accordance with the provisions of the Securities and Exchange Board of India (Buy Back of Securities) Regulations, 1998 and the Companies Act, 2013 and rules made thereunder.

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

Under this plan, the Company bought back and extinguished 5,077,504 equity shares for an aggregate purchase price of Rs.15,694. The aggregate face value of the equity shares bought back was Rs.25.

16. Employee stock incentive plans

Pursuant to the special resolutions approved by the shareholders in the Annual General Meetings held on September 24, 2001 and on July 27, 2005, respectively, the Company instituted the Dr. Reddy's Employees Stock Option Plan-2002 (the DRL 2002 Plan) and the Dr. Reddy's Employees ADR Stock Option Plan-2007 (the DRL 2007 Plan), each of which allows for grants of stock options to eligible employees.

The terms and conditions of the grants made during the three months ended June 30, 2017 under the above plans were as follows:

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

The above grants were made on May 11, 2017.

There were no new grants made during the three months ended June 30, 2016.

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During the year ended March 31, 2015, the Company adopted a new program to grant performance linked stock options to certain employees under the DRL 2002 Plan and the DRL 2007 Plan. Under this program, performance was measured each year against pre-defined interim targets over the three year period ended on March 31, 2017 and eligible employees were granted stock options upon meeting such targets. The stock options so granted will vest only upon satisfaction of certain service conditions which range from 1 to 4 years. After vesting, such stock options generally have a maximum contractual term of five years.

The fair value of services received in return for stock options granted to employees is measured by reference to the fair value of stock options granted. The fair value of stock options has been measured using the Black-Scholes-Merton valuation model at the date of the grant.

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

| | May 11, 2017 |
|-------------------------|-------------------------|
| Expected volatility | 30.08% |
| Exercise price | Rs. 5.00 |
| Option life | 2.5 Years |
| Risk-free interest rate | 6.69% |
| Expected dividends | 0.77% |
| Grant date share price | Rs. 2,594.00 |

Cash settled share-based payments awards

Certain of the Company's employees are eligible to receive share based payment awards that are settled in cash. These awards would vest only upon satisfaction of certain service conditions which range from 1 to 4 years. These awards entitle the employees to a cash payment on the vesting date. The amount of the cash payment is determined based on the price of the Company's ADSs at the time of vesting. For the three months ended June 30, 2017 and 2016, the Company recorded cash settled share based payment expense of Rs.9 and Rs.8, respectively. As of June 30, 2017, there was Rs.150 of total unrecognized compensation cost related to unvested awards. This cost is expected to be recognized over a weighted-average period of 3.62 years. This scheme does not involve dealing in or subscribing to or purchasing securities of the Company, directly or indirectly.

Equity settled share-based payment expense

For the three months ended June 30, 2017, and 2016, the Company recorded employee share based payment expense of Rs.111 and Rs.69, respectively. As of June 30, 2017, there was Rs.618 of total unrecognized compensation cost related to unvested stock options. This cost is expected to be recognized over a weighted-average period of 3.34 years.

17. Employee benefit plans

Gratuity benefits provided by the parent company

In accordance with applicable Indian laws, the Company has a defined benefit plan which provides for gratuity payments (the Gratuity Plan) and covers certain categories of employees in India. The Gratuity Plan provides a lump sum gratuity payment to eligible employees at retirement or termination of their employment. The amount of the payment is based on the respective employee s last drawn salary and the years of employment with the Company. Effective September 1, 1999, the Company established the Dr. Reddy s Laboratories Gratuity Fund (the Gratuity Fund) to fund the Gratuity Plan. Liabilities in respect of the Gratuity Plan are determined by an actuarial valuation, based upon which the Company makes contributions to the Gratuity Fund. Trustees administer the contributions made to the Gratuity Fund. Amounts contributed to the Gratuity Fund are invested in bonds issued by the Government of India and in debt securities and equity securities of Indian companies.

For the three months ended June 30, 2017 and 2016, the net periodic benefit cost was Rs.64 and Rs.59, respectively.

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(in millions, except share and per share data and where otherwise stated)

17. Employee benefit plans (continued)

Compensated absences

The Company provides for accumulation of compensated absences by certain categories of its employees. These employees can carry forward a portion of the unutilized compensated absences and utilize them in future periods or receive cash in lieu thereof as per the Company's policy. The Company records a liability for compensated absences in the period in which the employee renders the services that increases this entitlement. The total liability recorded by the Company towards this obligation was Rs.898 and Rs.855 as at June 30, 2017 and March 31, 2017, respectively.

Long term incentive plan

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

18. Income taxes

Income tax expense is recognized based on the Company's best estimate of the average annual income tax rate for the fiscal year applied to the pre-tax income of the interim period. The average annual income tax rate is determined for each taxing jurisdiction and applied individually to the interim period pre-tax income of each jurisdiction. The difference between the estimated average annual income tax rate and the enacted tax rate is accounted for by a number of factors, including the effect of differences between Indian and foreign tax rates, expenses that are not deductible for tax purposes, income exempted from income taxes, and effects of changes in tax laws and rates.

The Company's consolidated weighted average tax rate for the three months ended June 30, 2017 and 2016 was 23.5% and 26.0%, respectively. Income tax expense was Rs. 181 for the three months ended June 30, 2017, as compared to income tax expense of Rs. 444 for the three months ended June 30, 2016. The effective rate for the three months ended June 30, 2017 was lower primarily on account of a favorable change in the jurisdictional mix of earnings (i.e., an increase in the proportion of profit in lower tax jurisdictions and a decrease in the proportion of the profit in higher tax jurisdiction) for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016.

Total tax benefits recognized directly in the equity was Rs.350 for the three months ended June 30, 2017, as compared to tax expenses of Rs.15 for the three months ended June 30, 2016. Such tax expenses and benefits were primarily due to tax effects on the changes in fair value of available for sale financial instruments and the foreign exchange gain/loss on cash flow hedges.

19. Related parties

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

Green Park Hotel and Resorts Limited for hotel services;

Dr. Reddy s Foundation towards contributions for social development;

Pudami Educational Society towards contributions for social development;

Dr. Reddy s Institute of Life Sciences for research and development services; and

Stamlo Hotels Limited for hotel services.

These are enterprises over which key management personnel have control or significant influence. Key management personnel consists of the Company s Directors and members of the Company s Management Council.

The Company has also entered into cancellable operating lease transactions with key management personnel and close members of their families.

Further, the Company contributes to the Dr. Reddy s Laboratories Gratuity Fund, which maintains the plan assets of the Company s Gratuity Plan for the benefit of its employees.

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(in millions, except share and per share data and where otherwise stated)

19. Related parties (continued)

The following is a summary of significant related party transactions:

| | For the three months ended June 30, | | | |
|---|--|----|-------------|----|
| | 2017 | | 2016 | |
| Research and development services received | Rs. | 25 | Rs. | 24 |
| Contributions towards social development | | 49 | | 79 |
| Hotel expenses paid | | 26 | | 10 |
| Lease rentals paid under cancellable operating leases to key management personnel and close members of their families | | 10 | | 10 |

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

| | As at | |
|--|----------------------|-----------------------|
| | June 30, 2017 | March 31, 2017 |
| Key management personnel and close members of their families (towards rent deposits) | Rs. 8 | Rs. 8 |
| Other related parties | 36 | |

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

| | As at | |
|------------------------|----------------------|-----------------------|
| | June 30, 2017 | March 31, 2017 |
| Due to related parties | Rs. 0 | Rs. 9 |

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

| | For the three months ended June 30, | | | |
|---|--|-----|-------------|-----|
| | 2017 | | 2016 | |
| Salaries and other benefits ⁽¹⁾ | Rs. | 108 | Rs. | 105 |
| Contributions to defined contribution plans | | 7 | | 7 |

| | | |
|------------------------------|----------------|----------------|
| Commission to directors | 83 | 83 |
| Share-based payments expense | 25 | 13 |
| Total | Rs. 223 | Rs. 208 |

(1) In addition to the above, the Company has accrued Rs.0 and Rs.19 towards a long term incentive plan for the services rendered by key management personnel during the three months ended June 30, 2017 and 2016, respectively. Refer to Note 17 of these interim financial statements for further details.

Some of the key management personnel of the Company are also covered under the Company's Gratuity Plan along with the other employees of the Company. Proportionate amounts of gratuity accrued under the Company's Gratuity Plan have not been separately computed or included in the above disclosure.

20. Nature of Expense

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

| Particulars | Cost of revenues | For the three months ended June 30, 2017 | | Total |
|-------------------------------|------------------|--|-----------------------------------|-----------|
| | | Selling, general and administrative expenses | Research and development expenses | |
| Employee benefits | Rs. 2,636 | Rs. 4,225 | Rs. 1,212 | Rs. 8,073 |
| Depreciation and amortization | 1,613 | 891 | 295 | 2,799 |

| Particulars | Cost of revenues | For the three months ended June 30, 2016 | | Total |
|-------------------------------|------------------|--|-----------------------------------|-----------|
| | | Selling, general and administrative expenses | Research and development expenses | |
| Employee benefits | Rs. 2,667 | Rs. 4,164 | Rs. 1,219 | Rs. 8,050 |
| Depreciation and amortization | 1,413 | 976 | 292 | 2,681 |

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(in millions, except share and per share data and where otherwise stated)

21. Contingencies

The Company is involved in disputes, lawsuits, claims, governmental and/or regulatory inspections, inquiries, investigations and proceedings, including patent and commercial matters that arise from time to time in the ordinary course of business. The more significant matters are discussed below. Most of the claims involve complex issues. Often, these issues are subject to uncertainties and therefore the probability of a loss, if any, being sustained and an estimate of the amount of any loss is difficult to ascertain. Consequently, for a majority of these claims, it is not possible to make a reasonable estimate of the expected financial effect, if any, that will result from ultimate resolution of the proceedings. This is due to a number of factors, including: the stage of the proceedings (in many cases trial dates have not been set) and the overall length and extent of pre-trial discovery; the entitlement of the parties to an action to appeal a decision; clarity as to theories of liability; damages and governing law; uncertainties in timing of litigation; and the possible need for further legal proceedings to establish the appropriate amount of damages, if any. In these cases, the Company discloses information with respect to the nature and facts of the case. The Company also believes that disclosure of the amount sought by plaintiffs, if that is known, would not be meaningful with respect to those legal proceedings.

Although there can be no assurance regarding the outcome of any of the legal proceedings or investigations referred to in this Note, the Company does not expect them to have a materially adverse effect on its financial position, as it believes that the likelihood of loss in excess of amounts accrued (if any) is not probable. However, if one or more of such proceedings were to result in judgments against the Company, such judgments could be material to its results of operations in a given period.

Product and patent related matters

Matters relating to National Pharmaceutical Pricing Authority

Norfloxacin, India litigation

The Company manufactures and distributes Norfloxacin, a formulations product, and in limited quantities, the active pharmaceutical ingredient norfloxacin. Under the Drugs Prices Control Order (the "DPCO"), the National Pharmaceutical Pricing Authority (the "NPPA") established by the Government of India had the authority to designate a pharmaceutical product as a "specified product" and fix the maximum selling price for such product. In 1995, the NPPA issued a notification and designated Norfloxacin as a "specified product" and fixed the maximum selling price. In 1996, the Company filed a statutory Form III before the NPPA for the upward revision of the maximum selling price and a writ petition in the Andhra Pradesh High Court (the "High Court") challenging the validity of the designation on the grounds that the applicable rules of the DPCO were not complied with while fixing the maximum selling price. The High Court had previously granted an interim order in favor of the Company; however it subsequently dismissed the case in April 2004.

The Company filed a review petition in the High Court in April 2004 which was also dismissed by the High Court in October 2004. Subsequently, the Company appealed to the Supreme Court of India, New Delhi (the Supreme Court) by filing a Special Leave Petition.

During the year ended March 31, 2006, the Company received a notice from the NPPA demanding the recovery of the price charged by the Company for sales of Norfloxacin in excess of the maximum selling price fixed by the NPPA, which was Rs.285 including interest. The Company filed a writ petition in the High Court challenging this demand order. The High Court admitted the writ petition and granted an interim order, directing the Company to deposit 50% of the principal amount claimed by the NPPA, which was Rs.77. The Company deposited this amount with the NPPA in November 2005. In February 2008, the High Court directed the Company to deposit an additional amount of Rs.30, which was deposited by the Company in March 2008. In November 2010, the High Court allowed the Company's application to include additional legal grounds that the Company believed strengthened its defense against the demand. For example, the Company added as grounds that trade margins should not be included in the computation of amounts overcharged, and that it was necessary for the NPPA to set the active pharmaceutical ingredient price before the process of determining the ceiling on the formulation price. In October 2013, the Company filed an additional writ petition before the Supreme Court challenging the inclusion of Norfloxacin as a specified product under the DPCO. In January 2015, the NPPA filed a counter affidavit stating that the inclusion of Norfloxacin was based upon the recommendation of a committee consisting of experts in the field. On July 20, 2016, the Supreme Court remanded the matters concerning the inclusion of Norfloxacin as a specified product under the DPCO back to the High Court for further proceedings. During the three months ended December 31, 2016, a writ petition pertaining to Norfloxacin was filed by the Company with the Delhi High Court. Such writ petition is pending for admission.

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21. Contingencies (continued)

Product and patent related matters (continued)

During the three months ended September 30, 2016, the Supreme Court dismissed the Special Leave Petition pertaining to the fixing of prices for Norfloxacin formulations.

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

Litigation relating to Cardiovascular and Anti-diabetic formulations

In July 2014, the NPPA, pursuant to the guidelines issued in May 2014 and the powers granted by the Government of India under the Drugs (Price Control) Order, 2013, issued certain notifications regulating the prices for 108 formulations in the cardiovascular and antidiabetic therapeutic areas. The Indian Pharmaceutical Alliance (IPA), in which the Company is a member, filed a writ petition in the Bombay High Court challenging the notifications issued by the NPPA on the grounds that they were ultra vires, ex facie and ab initio void. The Bombay High Court issued an order to stay the writ in July 2014. On September 26, 2016, the Bombay High Court dismissed the writ petition filed by the IPA and upheld the validity of the notifications/orders passed by the NPPA in July 2014. Further, on October 25, 2016, the IPA filed a Special Leave Petition with the Supreme Court, which was dismissed by the Supreme Court.

During the three months ended December 31, 2016, the NPPA issued show-cause notices relating to allegations that the Company exceeded the notified maximum prices for 11 of its products. The Company has responded to these notices.

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

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

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

Based on its best estimate, the Company has recorded a provision of Rs.384 under Selling, general and administrative expenses as a potential liability for sale proceeds in excess of the notified selling prices, including the interest thereon, and believes that the likelihood of any further liability that may arise on account of penalties pursuant to this litigation is not probable.

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

Other Product and patent related matters

Nexium United States litigations

Five federal antitrust class action lawsuits were brought on behalf of direct purchasers of Nexium®, and ten federal class action lawsuits were brought under both state and federal law on behalf of end-payors of Nexium®. These actions were filed against various generic manufacturers, including the Company and its U.S. subsidiary Dr. Reddy's Laboratories Inc. These actions were consolidated in the United States District Court for the District of Massachusetts.

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(in millions, except share and per share data and where otherwise stated)

21. Contingencies (continued)

Product and patent related matters (continued)

The complaints alleged that AstraZeneca and the involved generic manufacturers settled patent litigation related to Nexium® capsules in a manner that violated antitrust laws. The Company consistently maintained that its conduct complied with all applicable laws and that the complaints were without merit. In response to a motion for summary judgment made by the Company, the Court granted the motion in part and denied it in part, finding that the plaintiffs had failed to demonstrate that the Company's settlement of patent litigation with AstraZeneca included any large or unjustified reverse payment, but preserving other claims for trial.

On October 20, 2014, the Company reached a settlement with all plaintiffs who had cases pending in the District of Massachusetts. The settlement with the class plaintiffs was subject to the Court's approval. Under the terms of the settlement, the Company made no payment to the class plaintiffs. Other defendants went to trial and prevailed.

The Court granted preliminary approval of the Company's settlements with the class plaintiffs on January 28, 2015, and granted final approval of such settlements on September 29, 2015.

On November 21, 2016, the First Circuit Court of Appeals affirmed the judgment that had been entered in favor of the defendants who tried the case to a verdict. On January 10, 2017, the First Circuit Court of Appeals denied the motions for reconsideration.

In addition, two complaints, similar in nature to those referenced above, were filed in the Court of Common Pleas in Philadelphia, Pennsylvania by plaintiffs who chose to opt out of the class action lawsuit. No dispositive motions have been filed in these actions.

The Company believes that the likelihood of any liability that may arise on account of lawsuits of the plaintiffs who opted out of the class action is not probable. Accordingly, no provision has been made in these interim financial statements.

Child resistant packaging matter

In May 2012, the Consumer Product Safety Commission (the CPSC) requested that Dr. Reddy's Laboratories Inc., a wholly-owned subsidiary of the Company in the United States, provide certain information with respect to compliance with requirements of special packaging for child resistant blister packs for 6 products sold by the Company in the United States during the period commencing in 2002 through 2011. The Company provided the requested

information. The CPSC subsequently alleged in a letter dated April 30, 2014 that the Company had violated the Consumer Product Safety Act (the CPSA) and the Poison Prevention Packaging Act (the PPPA) and that the CPSC intended to seek civil penalties. Specifically, the CPSC asserted, among other things, that from or about August 14, 2008 through June 1, 2012, the Company sold prescription drugs having unit dose packaging that failed to comply with the CPSC s special child resistant packaging regulations under the PPPA and failed to issue general certificates of conformance. In addition, the CPSC asserted that the Company violated the CPSA by failing to immediately advise the CPSC of the alleged violations. The Company disagrees with the CPSC s allegations.

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

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(in millions, except share and per share data and where otherwise stated)

21. Contingencies (continued)

Product and patent related matters (continued)

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

Although the DOJ and applicable States have declined to intervene in the FCA Complaint filed by the plaintiffs, the parallel investigation by the CPSC under the CPSA and the PPPA was referred by the CPSC to the DOJ's office in Washington, D.C. in April 2016, with the recommendation that the DOJ initiate a civil penalty action against the Company. The CPSC matter referred to the DOJ relates to five of the blister pack products. An unfavorable outcome in these matters could result in liabilities which could have a material adverse effect on the Company.

Namenda United States Litigations

In August 2015, Sergeants Benevolent Assoc. Health & Welfare Fund (Sergeants) filed suit against the Company in the United States District Court for the Southern District of New York. Sergeants alleged that certain parties, including the Company, violated federal antitrust laws as a consequence of having settled patent litigation related to the Alzheimer's drug Namenda® (memantine) tablets during a period from about 2009 until 2010. Sergeants seeks to represent a class of end-payor purchasers of Namenda® tablets (i.e., insurers, other third-party payors and consumers).

Sergeants seeks damages based upon an allegation made in the complaint that the defendants entered into patent settlements regarding Namenda® tablets for the purpose of delaying generic competition and facilitating the brand innovator's attempt to shift sales from the original immediate release product to the more recently introduced extended release product. The Company believes that the complaint lacks merit and that the Company's conduct complied with all applicable laws and regulations.

All defendants, including the Company, moved to dismiss the claims. On September 13, 2016, the Court denied these motions. However, the Sergeants case is stayed pending resolution of similar claims in another case in which the Company is not a party (*JM Smith Corp. v. Actavis PLC*). The parties in the *JM Smith* case have served the Company with subpoenas seeking specified documents, and the Company has produced documents in response to the subpoenas. The parties have also served the Company with subpoenas seeking deposition testimony.

Four other class action complaints, each containing similar allegations to the Sergeants complaint, have also been filed in the Southern District of New York. However, two of those complaints were voluntarily dismissed, and the other two do not name the Company as a defendant.

In addition, the State of New York filed an antitrust case in the Southern District of New York. The case brought by the State of New York contained some (but not all) of the allegations set forth in the class action complaints, but the Company was not named as a party. The case brought by the State of New York was dismissed by stipulation on November 30, 2015.

The Company believes that the likelihood of any liability that may arise on account of alleged violation of federal antitrust laws is not probable. Accordingly, no provision has been made in these interim financial statements.

Class Action and Other Civil Litigation on Pricing/Reimbursement Matters

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

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21. Contingencies (continued)

Product and patent related matters (continued)

Further, on November 17, 2016, certain class action complaints were filed against the Company and a number of other pharmaceutical companies as defendants in the United States District Court for the Eastern District of Pennsylvania. These complaints allege that the Company and the other named defendants have engaged in a conspiracy to fix prices and to allocate bids and customers in the sale of pravastatin sodium tablets and divalproex sodium extended-release tablets in the United States. In March 2017, plaintiffs agreed by stipulation to dismiss Dr. Reddy s Laboratories, Inc. and Dr. Reddy s Laboratories Limited from the actions related to pravastatin sodium tablets without prejudice. The Company denies any wrongdoing and intends to vigorously defend against these allegations.

The Company believes that the likelihood of any liability that may arise on account of any of these complaints is not probable. Accordingly, no provision has been made in these interim financial statements.

Civil litigation with Mezzion

On January 13, 2017, Mezzion Pharma Co. Ltd. and Mezzion International LLC (collectively, Mezzion) filed a complaint in the New Jersey Superior Court against the Company and its wholly owned subsidiary in the United States. The complaint pertains to the production and supply of the active pharmaceutical ingredient (API) for udenafil (a patented compound) and an udenafil finished dosage product during a period from calendar years 2007 to 2015. Mezzion alleges that the Company failed to comply with the U.S. FDA s current Good Manufacturing Practices (cGMP) at the time of manufacture of the API and finished dosage forms of udenafil and, consequently, that this resulted in a delay in the filing of a NDA for the product by Mezzion. The Company denies any wrongdoing or liability in this regard, and intends to vigorously defend against the claims asserted in Mezzion s complaint. The Company believes that the likelihood of any liability that may arise on account of this complaint is not probable. Accordingly, no provision was made in the interim financial statements of the Company.

Environmental matters

Land pollution

The Indian Council for Environmental Legal Action filed a writ in 1989 under Article 32 of the Constitution of India against the Union of India and others in the Supreme Court of India for the safety of people living in the Patancheru and Bollaram areas of Medak district of the then existing undivided state of Andhra Pradesh. The Company has been named in the list of polluting industries. In 1996, the Andhra Pradesh District Judge proposed that the polluting

industries compensate farmers in the Patancheru, Bollaram and Jeedimetla areas for discharging effluents which damaged the farmers' agricultural land. The compensation was fixed at Rs.0.0013 per acre for dry land and Rs.0.0017 per acre for wet land. Accordingly, the Company has paid a total compensation of Rs.3. The Company believes that the likelihood of additional liability is remote. The Andhra Pradesh High Court disposed of the writ petition on February 12, 2013 and transferred the case to the National Green Tribunal (NGT), Chennai, India. The interim orders passed in the writ petitions will continue until the matter is decided by the NGT. The NGT has, through its order dated October 30, 2015, constituted a Fact Finding Committee. The NGT has also permitted the alleged polluting industries to appoint a person on their behalf in the Fact Finding Committee. However, the Company along with the alleged polluting industries have challenged the constitution and composition of the Fact Finding Committee. The NGT has directed that until all the applications challenging the constitution and composition of the Fact Finding Committee are disposed of, the Fact Finding Committee shall not commence its operation.

Water pollution and air pollution

During the year ended March 31, 2012, the Company, along with 14 other companies, received a notice from the Andhra Pradesh Pollution Control Board (the APP Control Board) to show cause as to why action should not be initiated against them for violations under the Indian Water Pollution Act and the Indian Air Pollution Act. Furthermore, the APP Control Board issued orders to the Company to (i) stop production of all new products at the Company's manufacturing facilities in Hyderabad, India without obtaining a Consent for Establishment , (ii) cease manufacturing products at such facilities in excess of certain quantities specified by the APP Control Board and (iii) furnish a bank guarantee to assure compliance with the APP Control Board's orders.

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The Company appealed the APP Control Board orders to the Andhra Pradesh Pollution Appellate Board (the APP Appellate Board). The APP Appellate Board, on the basis of a report of a fact-finding advisory committee, recommended to the Andhra Pradesh Government to allow expansion of units fully equipped with Zero-Liquid Discharge (ZLD) facilities and otherwise found no fault with the Company (on certain conditions).

The APP Appellate Board s decision was challenged by one of the petitioners in the National Green Tribunal and the matter is currently pending before it.

Separately, the Andhra Pradesh Government, following recommendations of the APP Appellate Board, published a notification in July 2013 that allowed expansion of production of all types of existing bulk drug and bulk drug intermediate manufacturing units subject to the installation of ZLD facilities and the outcome of cases pending in the National Green Tribunal. Importantly, the notification directed pollution load of industrial units to be assessed at the point of discharge (if any) as opposed to point of generation.

In September 2013, the Ministry of Environment and Forests, based on the revised Comprehensive Environment Pollution Index, issued a notification that re-imposed a moratorium on expansion of industries in certain areas where some of the Company s manufacturing facilities are located. This notification overrides the Andhra Pradesh Government s notification that conditionally permitted expansion.

Indirect taxes related matters***Distribution of input service tax credits***

The Central Excise Authorities have issued various demand notices to the Company objecting to the Company s methodology of distributing input service tax credits claimed for one of the Company s facilities. The below table shows the details of each such demand notice, the amount demanded and the current status of the Company s responsive actions.

| Period covered under the notice | Amount demanded | Status |
|--|------------------------|---------------|
| March 2008 to September 2009 | | |

| | | |
|----------------------------|--|--|
| | Rs.102 plus penalties of Rs.102 and interest | The Company has filed an appeal before the CESTAT. |
| October 2009 to March 2011 | Rs.125 plus penalties of Rs.100 and interest | The Company has filed an appeal before the CESTAT. |
| April 2011 to March 2012 | Rs.51 plus interest and penalties | The Company has filed an appeal before the CESTAT. |
| April 2012 to March 2013 | Rs.54 plus interest and penalties | The Company has filed an appeal before the CESTAT. |
| April 2013 to March 2014 | Rs.69 plus interest and penalties | The Company has filed an appeal before the CESTAT. |
| April 2014 to March 2015 | Rs.108 plus interest and penalties | The Company has filed an appeal before the CESTAT. |

The Company believes that the likelihood of any liability that may arise on account of the allegedly inappropriate distribution of input service tax credits is not probable. Accordingly, no provision relating to these claims has been made in these interim financial statements as of June 30, 2017.

Value Added Tax (VAT) matter

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

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| Period covered under the notice | Amount demanded | Status |
|--|------------------------|--|
| April 2006 to March 2009 | Rs.66 plus 10% penalty | The Company has filed an appeal before the Sales Tax Appellate Tribunal. |
| April 2009 to March 2011 | Rs.59 plus 10% penalty | The Company has filed an appeal before the Sales Tax Appellate Tribunal. |
| April 2011 to March 2013 | Rs.16 plus 10% penalty | The Appellate Deputy Commissioner issued an order partially in favor of the Company. |

The Company has recorded a provision of Rs.27 as of June 30, 2017, and believes that the likelihood of any further liability that may arise on account of the allegedly inappropriate claims to VAT credits is not probable.

Others

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

Fuel Surcharge Adjustments

The Andhra Pradesh Electricity Regulatory Commission (the APERC) passed various orders approving the levy of Fuel Surcharge Adjustment (FSA) charges for the period from April 1, 2008 to March 31, 2013 by power distribution companies from all the consumers of electricity in the then existing undivided state of Andhra Pradesh, India where the Company's headquarters and principal manufacturing facilities are located. Separate writ petitions filed by the Company for various periods, challenging and questioning the validity and legality of this levy of FSA charges by the APERC, are pending before the High Court of Andhra Pradesh and the Supreme Court of India.

After taking into account all of the available information and legal provisions, the Company has recorded Rs.219 as the potential liability towards FSA charges. The total amount approved by APERC for collection by the power distribution companies from the Company in respect of FSA charges for the period from April 1, 2008 to March 31, 2013 is Rs.482. As of March 31, 2017, the Company has made payments under protest of Rs.354 as demanded by the power distribution companies as part of monthly electricity bills. The Company remains exposed to additional financial liability should the orders passed by the APERC be upheld by the Courts.

During the three months ended June 30, 2016, the Supreme Court of India dismissed the Special Leave Petition filed by the Company in this regard for the period from April 1, 2012 to March 31, 2013. As a result, for the quarter ended June 30, 2016, the Company recognized an expenditure of Rs.55 (by de-recognizing the payments under protest) representing the FSA charges for the period from April 1, 2012 to March 31, 2013.

Direct taxes related matters

The Company is contesting various disallowances by the Indian Income Tax authorities. The associated tax impact is Rs.1,555. The Company believes that the chances of an unfavorable outcome in each of such disallowances are less than probable and, accordingly, no provision is made in these interim financial statements as of June 30, 2017.

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21. Contingencies (continued)

Direct taxes related matters (continued)

During the years ended March 31, 2014, 2015 and 2016, Industrias Quimicas Falcon de Mexico, S.A. de CV, a wholly-owned subsidiary of the Company in Mexico, received a notice from Mexico's Tax Administration Service, *Servicio de Administracion Tributaria* (SAT), with respect to disallowance on account of transfer pricing adjustments pertaining to the calendar years ended December 31, 2006, December 31, 2007 and December 31, 2008. The associated tax impact is Rs.670 (MXN 187.4) and the Company has filed administrative appeals with the SAT by challenging these disallowances. During February and March 2017, the Company received orders of the SAT confirming these disallowances by dismissing its administrative appeals filed earlier. The Company disagrees with the SAT's disallowances and filed an appeal with the Tribunal Federal de Justicia Administrativa (Federal Tax and Administrative Court of Mexico) in March and April 2017.

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

Others

Additionally, the Company is involved in other disputes, lawsuits, claims, governmental and/or regulatory inspections, inquiries, investigations and proceedings, including patent and commercial matters that arise from time to time in the ordinary course of business. Except as discussed above, the Company does not believe that there are any such contingent liabilities that are expected to have any material adverse effect on its financial statements.

22. Collaboration agreement with Curis, Inc.

On January 18, 2015, Aurigene Discovery Technologies Limited (Aurigene), a wholly-owned subsidiary of the parent company, entered into a Collaboration, License and Option Agreement (the Collaboration Agreement) with Curis, Inc. (Curis) to discover, develop and commercialize small molecule antagonists for immuno-oncology and precision oncology targets.

Under the Collaboration Agreement, Aurigene has the responsibility for conducting all discovery and preclinical activities, including Investigational New Drug (IND) enabling studies and providing Phase 1 clinical trial supply, and Curis is responsible for all clinical development, regulatory and commercialization efforts worldwide, excluding India and Russia. The Collaboration Agreement provides that the parties will collaborate exclusively in immuno-oncology for an initial period of approximately two years, with the option for Curis to extend the broad immuno-oncology

exclusivity.

As partial consideration for the collaboration, pursuant to a Stock Purchase Agreement dated January 18, 2015, Curis issued to Aurigene 17.1 million shares of its common stock, the fair value of which on the date of the Stock Purchase Agreement was Rs.1,452 (U.S.\$23.5).

Revenues under the Collaboration Agreement consist of upfront consideration (including the shares of Curis common stock) and the development and commercial milestone payments described below, which are deferred and recognized as revenue over the period for which Aurigene has continuing performance obligations.

Under the Collaboration Agreement, Aurigene is entitled to development and commercial milestone payments. In addition, Curis has agreed to pay Aurigene royalties, ranging between high single digits to 10%, on its net sales in territories where it commercializes products. Furthermore, Aurigene is entitled to receive a share of Curis revenues from sublicenses, which share varies based upon specified factors such as the sublicensed territory, whether the sublicense revenue is royalty based or non-royalty based and, in some cases, the stage of the applicable molecule and product at the time the sublicense is granted.

On September 7, 2016, the Collaboration Agreement was amended to provide for the issuance to Aurigene of approximately 10.2 million additional shares of Curis common stock in lieu of receiving up to U.S.\$24.5 of milestone and other payments from Curis that could have become due under the Collaboration Agreement. These shares of Curis common stock are recorded at U.S.\$1.84 per share, which is equal to the market price of such shares of common stock on the date of issuance, amounting to an aggregate market value of Rs.1,247 (U.S.\$18.8).

These additional shares are subject to a lock-up agreement. This lock-up remains effective until September 7, 2018, with shares being released from such lock-up in 25% increments on each of March 7, 2017, September 7, 2017, March 7, 2018 and September 7, 2018, subject to acceleration of release of all the shares in connection with a change of control of Curis.

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(in millions, except share and per share data and where otherwise stated)

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

This arrangement is accounted for as a joint operation under IFRS 11. Further, the Company has also evaluated the transaction under IAS 28, Investments in associates and Joint Ventures, and believes that the Company does not have any significant influence with respect to Curis. Accordingly, all of the shares of Curis common stock are classified as available-for-sale financial instruments and are re-measured at fair value at every reporting date.

Accordingly, gain of Rs.637 arising from changes in the fair value of such shares of common stock was recorded in other comprehensive income as of June 30, 2017.

23. Collaboration Agreement with Merck Serono

On June 6, 2012, the Company entered into a collaboration agreement with the biosimilars division of Merck KGaA, Darmstadt, Germany, formerly known as Merck Serono (hereinafter, Merck KGaA), to co-develop a portfolio of biosimilar compounds in oncology, primarily focused on monoclonal antibodies. The arrangement covers co-development, manufacturing and commercialization of the compounds around the globe, with some specific country exceptions. During the year ended March 31, 2016, the collaboration agreement was amended to rearrange and realign the development of compounds, territory rights and royalty payments. Both parties undertook commercialization based on their respective regional rights as defined in the agreement. The Company leads and supports early product development towards or including Phase 1 development. Merck KGaA carries out manufacturing of the compounds and leads further development for its territories. The Company carries out its own development, wherever applicable, for commercialization in its exclusive and co-exclusive territories. The Company will continue to receive royalty payments upon commercialization by Merck KGaA in its territories.

During the year ended March 31, 2016, the Company received from Merck KGaA certain amounts relating to its share of development costs and other amounts linked to the achievement of milestones for the development of compounds under the collaboration agreement, as amended.

Furthermore, during the three months ended December 31, 2016, the Company received from Merck KGaA payments of U.S.\$1 towards achievement of a milestone for the development of a compound under the collaboration agreement.

On April 24, 2017, Fresenius SE & Co. KgaA and Merck KGaA announced that Fresenius Kabi will acquire Merck's Biosimilars business. The transaction is subject to regulatory approvals and other customary closing conditions and is expected to close in the second half of calendar year 2017. Upon completion of the transaction, the Company's collaboration will continue as planned, with Fresenius Kabi.

24. Receipt of warning letter from the U.S. FDA

The Company received a warning letter dated November 5, 2015 from the U.S. FDA relating to current Good Manufacturing Practice (cGMP) deviations at its active pharmaceutical ingredient (API) manufacturing facilities at Srikakulam, Andhra Pradesh and Miryalaguda, Telangana, as well as violations at its oncology formulation manufacturing facility at Duvvada, Visakhapatnam, Andhra Pradesh. The contents of the warning letter emanated from Form 483 observations that followed inspections of these sites by the U.S. FDA in November 2014, January 2015 and February-March 2015, respectively.

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

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

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

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

25. Venezuela operations

Dr. Reddy's Venezuela, C.A., a wholly-owned subsidiary of the Company, is primarily engaged in the import of pharmaceutical products from the parent company and other subsidiaries of the Company and the sale of such products in Venezuela.

Overhaul of the exchange rate system in Venezuela: In February 2015, the Venezuelan government launched an overhaul of its then existing exchange rate system and introduced a new exchange rate mechanism. The Marginal Currency System (known as SIMADI) was the third tier in the new three-tier exchange rate regime introduced and allowed for legal trading of the Venezuelan bolivar for foreign currency with fewer restrictions than other mechanisms in Venezuela (CENCOEX and SICAD). The new second tier (known as SICAD) was introduced with an initial rate of approximately 12 VEF per U.S.\$1.00. The first tier (known as CENCOEX), the official exchange rate, was unchanged and sold dollars at 6.3 VEF per U.S.\$1.00 for preferential goods.

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

The CENCOEX preferential rate was replaced with a new DIPRO rate. The DIPRO rate is only available for purchases and sales of essential items. Further, the preferential exchange rate was devalued from 6.3 VEF per U.S.\$1.00 to 10 VEF per U.S.\$1.00.

The SICAD exchange rate mechanism, which last auctioned USD for 13 VEF per U.S.\$1.00, was eliminated.

The SIMADI exchange rate mechanism was replaced with a new DICOM rate, which governs all transactions not subject to the DIPRO exchange rate and will fluctuate according to market supply and demand.

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

Impact on the performance of the Company:

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

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

Table of Contents**DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****(in millions, except share and per share data and where otherwise stated)****25. Venezuela operations (continued)***Update during the three months ended June 30, 2017*

In May 2017, the Venezuelan government announced its intent to bring in a new mechanism for operation of the DICOM rate through an auction system. Subsequently, the Venezuelan government completed its first auction offering under DICOM, resulting in a DICOM rate of VEF 2,010 per U.S.\$1.00. As of June 30, 2017, the DICOM rate was VEF 2,640 per U.S.\$1.00. The Company continues to use the DICOM rate for translating the monetary assets and liabilities of the Venezuelan subsidiary. As a result, foreign exchange loss of Rs.28 was recognized for the quarter ended June 30, 2017.

Revenues for the three months ended June 30, 2017 and 2016 were Rs.0 and Rs.1 (VEF 7), respectively.

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

26. Certain significant asset purchase agreements

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

| Month and Year | Counterparty | Brief particulars of the asset / agreement | Useful life | Carrying cost as on June 30, 2017 | |
|---------------------------|---|--|------------------------|--|-------|
| October 2014 | Novartis Consumer Health Inc. | Acquisition of the title and rights to Habitrol® brand (an over-the-counter nicotine replacement therapy transdermal patch) and to market the product in the United States, all for an aggregate consideration of Rs.5,097. | 8 years | Rs. | 3,327 |
| June 2015 | UCB India Private Limited and affiliates | Purchase of a select portfolio of established products business in the territories of India, Nepal, Sri Lanka and Maldives to strengthen our presence in the areas of dermatology, respiratory and pediatric products, all for a total purchase consideration of Rs.8,000. | 9 to 15 years | Rs. | 6,458 |
| September 2015 | Hatchtech Pty Limited | Purchase of intellectual property rights of an innovative prescription head lice product, Xeglyze | Not available | Rs. | 988 |

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| | | | | | |
|---------------|----------------------|--|---------------------------|-----|-------|
| | | lotion. Consideration was an upfront amount of Rs.606 plus certain milestone-based payments. | for use yet | | |
| November 2015 | Alchemia Limited | Purchase of worldwide, exclusive intellectual property rights to fondaparinux sodium, all for an aggregate consideration of Rs.1,158. | 4 years | Rs. | 659 |
| March 2016 | XenoPort, Inc. | Purchase of exclusive U.S. rights for the development and commercialization of XenoPort's clinical stage oral new chemical entity, all for an aggregate consideration of Rs.3,159. The Company plans to develop the in-licensed compound as a potential treatment for moderate-to-severe chronic plaque psoriasis and for relapsing forms of multiple sclerosis. | Not available for use yet | Rs. | 3,127 |
| May 2016 | Ducere Pharma LLC | Purchase of certain pharmaceutical brands to strengthen the Company's presence in the dermatology, cough-and-cold and pain therapeutic areas forming part of the Company's over-the-counter (OTC) business in the United States, all for an aggregate consideration of Rs.1,148. | 15 years | Rs. | 1,034 |
| November 2016 | Gland Pharma Limited | Acquisition of the rights to in-license, market and distribute eight injectable ANDAs, all for an aggregate consideration of U.S.\$6.8. | Not available for use yet | Rs. | 212 |

Table of Contents**DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****(in millions, except share and per share data and where otherwise stated)****27. Asset purchase agreement with Teva Pharmaceutical Industries Limited**

On June 10, 2016, the Company entered into a definitive purchase agreement with Teva Pharmaceutical Industries Limited (Teva) and an affiliate of Allergan plc (Allergan) to acquire eight Abbreviated New Drug Applications (ANDAs) in the United States for U.S.\$350 in cash at closing. The acquired products were divested by Teva as a precondition to the closing of its acquisition of Allergan's generics business. The acquisition of these ANDAs was also contingent on the closing of the Teva/Allergan generics purchase transaction and approval by the U.S. Federal Trade Commission.

The acquisition was consummated on August 3, 2016 upon the completion of all closing conditions, and the Company paid U.S.\$350 as the consideration for the acquired ANDAs.

Tabulated below are the details of products acquired and the respective purchase prices:

| Particulars of the ANDA | U.S.\$ | Rs. |
|--|---------------|---------------|
| Ethinyl estradiol/Ethonogestrel Vaginal Ring (a generic equivalent to NuvaRing®) | 185 | 12,351 |
| Buprenorphine HCl/Naloxone HCl Sublingual Film (a generic equivalent to Suboxone® sublingual film) | 70 | 4,673 |
| Ramelteon Tablets (a generic equivalent to Rozerem®) | 34 | 2,270 |
| Others | 61 | 4,072 |
| Grand Total | 350 | 23,366 |

The Company recorded the aforesaid acquisition of these ANDAs as product related intangibles. As these ANDAs are not available for use yet, they are not subject to amortization. The aforesaid acquisition forms part of the Company's Global Generics segment.

During the three months ended June 30, 2017, the Company launched the product for one of the eight ANDAs acquired (ezetimibe and simvastatin) in the United States of America. The carrying cost of the ANDA is Rs.764.

The carrying value of these intangibles (including those capitalized) as on June 30, 2017 was Rs.22,836.

28. Change in the functional currency of a foreign operation

Until July 31, 2016, the functional currency of the Swiss Subsidiary was determined to be the Indian rupee. During the three months ended September 30, 2016, the Swiss Subsidiary borrowed U.S.\$350 from certain institutional lenders to acquire eight ANDAs in the United States (refer to Note 27 of these interim financial statements for further details). The Company determined that the aforesaid transactions would have a significant impact on the primary economic

environment of the Swiss Subsidiary and, accordingly, the Swiss Subsidiary's operating, investing and financing activities would have a greater reliance on the United States dollar.

Accordingly, effective August 1, 2016, the functional currency of the Swiss Subsidiary was changed to the United States dollar. The change in functional currency of the Swiss subsidiary was applied prospectively from date of change in accordance with IAS 21, *The Effect of Changes in Foreign Exchange Rate*.

29. Subsequent events

Agreement with CHD Biosciences Inc.,

In July 2017, the Company entered into a licensing agreement with CHD Biosciences Inc. (*CHD*) for the clinical development and commercialization of the Company's Phase III clinical trial candidate, DFA-02. DFA-02 is intended to be used for the prevention of surgical site infections following non-emergency, elective colorectal surgery. Phase II studies for DFA-02 have been successfully completed and the product will be transitioning to pivotal phase III registration studies.

Under the terms of the licensing agreement, the Company would receive equity in CHD valued at U.S.\$30 upon an initial public offering of CHD or, if no initial public offering occurs within 18 months of execution of the agreement, a cash payment of U.S.\$30. The Company will also receive additional milestone payments of U.S.\$40 upon U.S. FDA approval. In addition, the Company is entitled to double-digit royalties on sales and certain commercial milestones with respect to the product.

Table of Contents**ITEM 2. OPERATING AND FINANCIAL REVIEW, TREND INFORMATION**

The following discussion and analysis should be read in conjunction with the audited consolidated financial statements, the related cash flow statements and notes, and the Operating and Financial Review and Prospects included in our Annual Report on Form 20-F for the fiscal year ended March 31, 2017, which is on file with the SEC, and the unaudited condensed consolidated interim financial statements contained in this report on Form 6-K.

This discussion contains forward-looking statements that involve risks and uncertainties. When used in this discussion, the words anticipate, believe, estimate, intend, will and expect and other similar expressions as to us or our business are intended to identify such forward-looking statements. We undertake no obligation to publicly update or revise the forward-looking statements, whether as a result of new information, future events, or otherwise. Actual results, performances or achievements could differ materially from those expressed or implied in such forward-looking statements. Factors that could cause or contribute to such differences include those described under the heading Risk Factors in our Form 20-F. Readers are cautioned not to place reliance on these forward-looking statements that speak only as of their dates.

Three months ended June 30, 2017 compared to the three months ended June 30, 2016

The following table sets forth, for the periods indicated, financial data along with respective percentages to total revenues and the increase (or decrease) by item as a percentage of the amount over the comparable period in the previous year.

| | For the three months ended June 30, 2017 | | 2016 | | Increase/ (Decrease) |
|---|---|------------------|--------------------|------------------|-------------------------|
| | Rs. in millions | % of Revenues | Rs. in millions | % of Revenues | |
| Revenues | Rs. 33,159 | 100.0% | Rs. 32,345 | 100.0% | 3% |
| Gross profit | 17,097 | 51.6% | 18,178 | 56.2% | (6%) |
| Selling, general and administrative expenses | 11,763 | 35.5% | 12,284 | 38.0% | (4%) |
| Research and development expenses | 5,075 | 15.3% | 4,802 | 14.8% | 6% |
| Other (income)/expense, net | (194) | (0.6%) | (96) | (0.3%) | 102% |
| Results from operating activities | 453 | 1.4% | 1,188 | 3.7% | (62%) |
| Finance (expense)/income, net | 221 | 0.7% | 445 | 1.4% | (50%) |
| Share of profit of equity accounted investees, net of tax | 98 | 0.3% | 74 | 0.2% | 33% |
| Profit before tax | 772 | 2.3% | 1,707 | 5.3% | (55%) |
| Tax expense | 181 | 0.5% | 444 | 1.4% | (59%) |
| Profit for the period | 591 | 1.8% | Rs. 1,263 | 3.9% | (53%) |
| Revenues | | | | | |

Our overall consolidated revenues were Rs.33,159 million for the three months ended June 30, 2017, an increase of 3% as compared to Rs.32,345 million for the three months ended June 30, 2016.

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

| | For the three months ended June 30, 2017 | | 2016 | | Increase/ (Decrease) |
|---|---|------------------------|--------------------|------------------------|-------------------------|
| | Rs. in millions | Revenues % of Total | Rs. in millions | Revenues % of Total | |
| Global Generics | Rs. 27,455 | 83% | Rs. 26,638 | 82% | 3% |
| Pharmaceutical Services and Active Ingredients | 4,651 | 14% | 4,692 | 15% | (1%) |
| Proprietary Products | 512 | 1% | 620 | 2% | (17%) |
| Others | 541 | 2% | 395 | 1% | 37% |
| Total | Rs. 33,159 | 100% | Rs. 32,345 | 100% | 3% |

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Segment Analysis

Global Generics

Revenues from our Global Generics segment were Rs.27,455 million for the three months ended June 30, 2017, an increase of 3% as compared to Rs.26,638 million for the three months ended June 30, 2016.

After taking into account the impact of exchange rate fluctuations of the Indian rupee against multiple currencies in the markets in which we operate, the foregoing increase in revenues of this segment was attributable to the following factors:

an increase of approximately 8% resulting from the introduction of new products during the intervening period;

an increase of approximately 4% resulting from a net increase in the sales volume of existing products in this segment; and

the foregoing was partially offset by a decrease of approximately 9% resulting from the net impact of changes in sales prices of the products in this segment.

North America (the United States and Canada): Our Global Generics segment's revenues from North America (the United States and Canada) were Rs.14,946 million for the three months ended June 30, 2017, a decrease of 4% as compared to the three months ended June 30, 2016. In U.S. dollar absolute currency terms (i.e., U.S. dollars without taking into account the effect of currency exchange rates), such revenues decreased by 3% in the three months ended June 30, 2017 as compared to the three months ended June 30, 2016.

This decrease in revenues was largely attributable to the following:

price erosion in certain of our existing products of this segment;

discontinuation of our sale of products to McNeil Consumer Healthcare following the conclusion of our supply arrangement with them; and

the foregoing was partially offset by revenues from new products launched between July 1, 2016 and June 30, 2017, such as omeprazole sodium bicarbonate, nitroglycerin SLT (sublingual tablets), lamotrigine ODT (orally disintegrating tablet), (ezetimibe and simvastatin) and liposomal doxorubicin.

During the three months ended June 30, 2017, we launched four new products in North America (the United States and Canada). These new products are ezetimibe and simvastatin, liposomal doxorubicin, progesterone, and bivalirudin injection.

During the three months ended June 30, 2017, we made 2 new ANDA filings to the U.S.FDA. As of June 30, 2017, our cumulative filings were 258 which includes 3 NDA filings under section 505(b)(2) and 255 ANDA filings. Out of these filings, we had 99 filings pending approval at the U.S. FDA, which includes 2 NDA filings under section 505(b)(2) and 97 ANDA filings. Out of these 97 ANDA filings, 59 are Paragraph IV filings and we believe we are the first to file with respect to 26 of these filings.

India: Our Global Generics segment's revenues from India for the three months ended June 30, 2017 were Rs.4,687 million, a decrease of 10% as compared to the three months ended June 30, 2016. This decrease was primarily attributable to a significant reduction in sales volume of our existing products as our customers in India reduced their inventory holdings in anticipation of the transition to India's new Goods and Service Tax (GST) regime, which was enacted effective as of July 1, 2017. According to IMS Health in its Moving Quarterly Total report for the three months ended June 30, 2017, our secondary sales in India declined by 5.8% during such period, as compared to the India pharmaceutical market's growth of 4.7% during such period. During the three months ended June 30, 2017, we launched three new brands in India.

Emerging Markets: Our Global Generics segment's revenues from Emerging Markets (which is comprised of Russia, other countries of the former Soviet Union, Romania and certain other countries from our Rest of the World markets, primarily, South Africa and Australia) for the three months ended June 30, 2017 were Rs.5,747 million, an increase of 34% as compared to the three months ended June 30, 2016.

Russia: Our Global Generics segment's revenues from Russia for the three months ended June 30, 2017 were Rs.3,461 million, an increase of 48% as compared to the three months ended June 30, 2016. In Russian rouble absolute currency terms (i.e., Russian roubles without taking into account the effect of currency exchange rates), such revenues increased by 31% for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016. Our over-the-counter (OTC) division's revenues from Russia for the three months ended June 30, 2017 were 37% of our total revenues from Russia.

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This increase was mainly on account of an increase in the sales volume of our existing products and due to new products we launched between July 1, 2016 and June 30, 2017. During the three months ended June 30, 2017, we also sold rituximab under a contract that we won in national and regional tenders in Russia.

According to IMS Health, as per its report for the three months ended June 30, 2017, our sales value (in Russian roubles) growth and volume growth from Russia, as compared to the Russian pharmaceutical market sales value (in Russian roubles) growth and volume growth for the three months ended June 30, 2017 was as follows:

| | For the three months ended June 30, 2017 | | | |
|------------------------|--|--------|-------------------------------|--------|
| | Dr. Reddy's Laboratories | | Russian pharmaceutical market | |
| | Sales value | Volume | Sales value | Volume |
| Prescription (Rx) | 4.69% | 0.65% | 10.40% | 6.83% |
| Over-the-counter (OTC) | 9.98% | 14.20% | 7.60% | 2.25% |
| Total (Rx + OTC) | 6.67% | 4.07% | 9.00% | 3.60% |

As per the above referenced IMS Health report, our volume market share for the three months ended June 30, 2017 and for the three months ended June 30, 2016 was as follows:

| | For the three months ended June 30, | |
|------------------------|-------------------------------------|-------|
| | 2017 | 2016 |
| Prescription (Rx) | 4.31% | 4.51% |
| Over-the-counter (OTC) | 0.75% | 0.68% |
| Total (Rx + OTC) | 1.86% | 1.85% |

Other countries of the former Soviet Union and Romania: Our Global Generics segment's revenues from other countries of the former Soviet Union and Romania were Rs.861 million for the three months ended June 30, 2017, an increase of 28% as compared to the three months ended June 30, 2016. This increase was largely attributable to an increase in sales volume of our existing major brands coupled with new product launches across these markets.

Rest of the World Markets: We refer to all markets of this segment other than North America (the United States and Canada), Europe, Russia and other countries of the former Soviet Union, Romania and India as our Rest of the World markets. Our Global Generics segment's revenues from our Rest of the World markets were Rs.1,425 million for the three months ended June 30, 2017, an increase of 13% as compared to the three months ended June 30, 2016.

Europe: Our Global Generics segment's revenues from Europe are primarily derived from Germany, the United Kingdom and our out-licensing business across Europe. Such revenues were Rs.2,075 million for the three months ended June 30, 2017, an increase of 28% as compared to the three months ended June 30, 2016. This increase was primarily on account of the increase in sales volume of existing products along with new products launched between July 1, 2016 and June 30, 2017.

Pharmaceutical Services and Active Ingredients (PSAI)

Our PSAI segment's revenues for the three months ended June 30, 2017 were Rs.4,651 million, a decrease of 1% as compared to the three months ended June 30, 2016. After taking into account the impact of exchange rate fluctuations of the Indian rupee against multiple currencies in the markets in which we operate, this decrease was largely

attributable to:

decrease in sales of active pharmaceutical ingredients for the three months ended June 30, 2017, which decreased our PSAI segment's revenues by approximately 1.4%. This decrease was primarily attributable to price decline of our existing products; and

the foregoing was partially offset by increased customer orders in our pharmaceutical development services, which increased our PSAI segment's revenues by approximately 0.6%.

During the three months ended June 30, 2017, we filed 15 Drug Master Files (DMFs) worldwide. Cumulatively, our total worldwide DMFs as of June 30, 2017, were 767, including 205 DMFs in the United States.

Table of Contents**Gross Profit**

Our total gross profit was Rs.17,097 million for the three months ended June 30, 2017, representing 51.6% of our revenues for that period, as compared to Rs.18,178 million for the three months ended June 30, 2016, representing 56.2% of our revenues for that period.

The following table sets forth, for the period indicated, our gross profits by segment:

| | For the three months ended June 30, 2017 | | 2016 | |
|--|---|----------------------|-------------------|----------------------|
| | Gross Profit | % of Segment Revenue | Gross Profit | % of Segment Revenue |
| Global Generics | Rs. 15,836 | 57.7% | Rs. 16,339 | 61.3% |
| Pharmaceutical Services and Active Ingredients | 533 | 11.5% | 1,131 | 24.1% |
| Proprietary Products | 418 | 81.6% | 525 | 84.6% |
| Others | 310 | 57.3% | 183 | 46.3% |
| Total | Rs. 17,097 | 51.6% | Rs. 18,178 | 56.2% |

After taking into account the impact of the exchange rate fluctuations of the Indian rupee against multiple currencies in the markets in which we operate, the gross profits from our Global Generics segment decreased to 57.7% for the three months ended June 30, 2017 from 61.3% for the three months ended June 30, 2016. This decrease was primarily on account of lower contribution from our India formulations business, as our customers in India reduced their inventory holdings in anticipation of the transition to India's new GST regime, and lower realizations in our North America generics business.

The gross profits from our PSAI segment decreased to 11.5% for the three months ended June 30, 2017, from 24.1% for the three months ended June 30, 2016. This decrease was primarily due to lower realizations in some of our key molecules coupled with changes in our existing product mix (i.e., a decrease in the proportion of sales of higher gross margin products and an increase in the proportion of sales of lower gross margin products) for the three months ended June 30, 2017.

Selling, general and administrative expenses

Our selling, general and administrative expenses were Rs.11,763 million for the three months ended June 30, 2017, a decrease of 4% as compared to Rs.12,284 million for the three months ended June 30, 2016. After taking into account the impact of exchange rate fluctuations of the Indian rupee against multiple currencies in the markets in which we operate, this increase was largely attributable to the following:

decreased legal and professional expenses, primarily on account of reduced remediation activities related to the warning letter received from the U.S. FDA for three of our manufacturing facilities in India, which decreased our selling, general and administrative expenses by approximately 5%;

decreased amortization, which decreased our selling, general and administrative expenses by approximately 1%;

the foregoing was partially offset by:

increased personnel costs, due to annual raises and new recruitments, which increased our selling, general and administrative expenses by approximately 1%; and

increased other costs, which increased our selling, general and administrative expenses by approximately 1%.

As a proportion of our total revenues, our selling, general and administrative expenses decreased to 35.5% for the three months ended June 30, 2017 from 38.0% for the three months ended June 30, 2016.

Research and development expenses

Our research and development expenses were Rs.5,075 million for the three months ended June 30, 2017, an increase of 6% as compared to Rs.4,802 million for the three months ended June 30, 2016.

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As a proportion of our total revenues, our research and development expenses increased to 15.3% for the three months ended June 30, 2017 from 14.8% for the three months ended June 30, 2016.

Other (income)/expense, net

Our net other income was Rs.194 million for the three months ended June 30, 2017, as compared to net other income of Rs.96 million for the three months ended June 30, 2016.

Finance (expense)/income, net

Our net finance income was Rs.221 million for the three months ended June 30, 2017, as compared to net finance income of Rs.445 million for the three months ended June 30, 2016. The decrease in net finance income was due to the following:

net interest expense of Rs.72 million for the three months ended June 30, 2017, as compared to net interest income of Rs.123 million for the three months ended June 30, 2016;

net foreign exchange gain of Rs.10 million for the three months ended June 30, 2017, as compared to net foreign exchange gain of Rs.36 million for the three months ended June 30, 2016; and

profit on sale of investments of Rs.283 million for the three months ended June 30, 2017, as compared to profit on sale of investments of Rs.286 million for the three months ended June 30, 2016.

Profit before tax

As a result of the above, our profit before tax was Rs.772 million for the three months ended June 30, 2017, a decrease of 55% as compared to Rs.1,707 million for the three months ended June 30, 2016.

Tax expense

Our consolidated weighted average tax rate was 23.5% for the three months ended June 30, 2017, as compared to 26.0% for the three months ended June 30, 2016. The effective rate for the three months ended June 30, 2017 was lower primarily on account of a favorable change in the jurisdictional mix of earnings (i.e., an increase in the proportion of profit in lower tax jurisdictions and a decrease in the proportion of the profit in higher tax jurisdiction) for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016.

Our tax expense was Rs.181 million for the three months ended June 30, 2017, as compared to Rs.443 million for the three months ended June 30, 2016.

Profit for the period

As a result of the above, our net profit was Rs.591 million for the three months ended June 30, 2017, representing 1.8% of our total revenues for such period, as compared to Rs.1,263 million for the three months ended June 30, 2016, representing 3.9% of our total revenues for such period.

Table of Contents**ITEM 3. LIQUIDITY AND CAPITAL RESOURCES**

We have primarily financed our operations through cash flows generated from operations and a mix of long-term and short-term borrowings. Our principal liquidity and capital needs are for making investments, the purchase of property, plant and equipment, regular business operations and research and development.

Our principal sources of short-term liquidity are internally generated funds and short-term borrowings, which we believe are sufficient to meet our working capital requirements. Through Dr. Reddy's Laboratories, SA, one of our subsidiaries in Switzerland (the Swiss Subsidiary), we borrowed U.S.\$220 million during the year ended March 31, 2012, which was required to be repaid in eight quarterly installments beginning in December 2014. During the year ended March 31, 2016, we repaid the entire outstanding loan amount (including a prepayment of U.S.\$110 million), and our Swiss Subsidiary further incurred U.S.\$82.5 million of new short-term borrowings, which was repaid by June 2016. We also borrowed U.S.\$150 million during the year ended March 31, 2014, which was to be repaid in five quarterly installments beginning February 2018. During the three months ended December 31, 2016, we entered into a financing arrangement with certain financial institutions to refinance this borrowing of U.S.\$150 million. As per the repayment schedule applicable to the refinanced borrowing, we repaid U.S.\$75 million on November 28, 2016 (refer to Note 12 to our interim financial statements for further details). These loans were incurred primarily to repay some of our then existing short-term borrowings and to meet anticipated capital expenditures over the near term.

During the three months ended September 30, 2016, the Swiss Subsidiary borrowed U.S.\$350 of short-term borrowings from certain institutional lenders at an interest rate ranging from Libor plus 0.45% to 0.60% per annum. These loans were borrowed for the purpose of funding the acquisition of eight Abbreviated New Drug Applications (ANDAs) from Teva Pharmaceutical Industries Limited in the United States (refer to Note 27 of these interim financial statements for additional details). During the three months ended June 30, 2017, the Swiss Subsidiary repaid the entire short-term borrowing of U.S.\$350.

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

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

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

| | For the three months ended June 30, | | |
|--------------------------|--|-------------|-------------|
| | 2017 | 2017 | 2016 |
| | (U.S.\$ in millions, Rs. in millions) | | |
| | <i>Convenience</i> | | |
| | <i>translation into U.S.\$</i> | | |
| Net cash from/(used in): | | | |
| Operating activities | U.S.\$ (31) | Rs. (1,979) | Rs. 5,054 |
| Investing activities | (4) | (227) | 8,745 |

| | | | |
|---|--------------------|------------------|------------------|
| Financing activities | 20 | 1,291 | (12,292) |
| Net increase/(decrease) in cash and cash equivalents | U.S.\$ (14) | Rs. (915) | Rs. 1,507 |

In addition to cash, inventory and accounts receivable, our unused sources of liquidity included Rs.20,141 million available in credit under revolving credit facilities with banks as of June 30, 2017. We had no other material unused sources of liquidity as of June 30, 2017.

Cash Flows from Operating Activities

The net result of operating activities was a net cash outflow of Rs.1,979 million for the three months ended June 30, 2017, as compared to a cash inflow of Rs.5,054 million for the three months ended June 30, 2016. Accordingly, our net cash inflow decreased by Rs.7,033 million for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016, primarily due to increases in working capital requirements and decreases in our earnings, as described below.

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The net cash used in operating activities for the three months ended June 30, 2017 was Rs.1,979 million, as compared to net cash from operating activities of Rs.5,054 million for the three months ended June 30, 2016. This change was primarily on account of the following:

a decline in our business performance for the three months ended June 30, 2017 due to (a) increased competition for key products in our North America (the United States and Canada) generics business; (b) adverse impact of exchange currencies; and (c) lower revenues from our India formulations business, due to the reduction in inventory holdings by our customers in India in anticipation of the transition to India's newly introduced GST regime; and

increased receivables as of June 30, 2017, on account of (a) changes in the customer mix (i.e., an increase in the proportion of receivables from our customers with longer credit periods, as further discussed below); and (b) increases in the proportion of our invoices issued towards the end of the quarter.

This has resulted in a decrease of Rs.618 million in our profit before interest expense, profit/loss on sale of investments, tax expense, depreciation and amortization (Rs.3,361 million for the three months ended June 30, 2017, as compared to Rs.3,979 million for the three months ended June 30, 2016).

Our average days sales outstanding (DSO) as at June 30, 2017, March 31, 2017 and June 30, 2016, computed based on the sales for the three months then ended, were 109 days, 96 days and 98 days, respectively. The increase in our DSO was primarily on account of change in the mix of receivables due to (a) an increase in the proportion of receivables from our customers with longer credit periods in the United States; and (b) lower contribution from our formulation receivables from sales in India, which have a lower credit period.

Cash Flows from Investing Activities

Our investing activities resulted in a net cash outflow of Rs.227 million as compared to a net cash inflow of Rs.8,745 million for the three months ended June 30, 2017 and 2016, respectively. This decrease in net cash inflow of Rs.8,972 million was primarily due to:

a decrease in net proceeds from the redemption of investments in mutual funds and fixed deposits having an original maturity of more than three months by Rs.13,486 million for the three months ended June 30, 2017, as compared to the three months ended June 30, 2016;

the foregoing was partially offset by a net decrease in amounts spent on property, plant and equipment by Rs.511 million during the three months ended June 30, 2017 as compared to the three months ended June 30, 2016; and

in addition, the foregoing was partially offset by a net decrease of Rs 4,253 million in net cash outflow attributable to key acquisitions in the quarter ended June 30, 2017 as compared to the quarter ended June 30, 2016:

Rs.3,159 million (U.S.\$47.5 million) paid to XenoPort, Inc. for the acquisition of exclusive U.S. rights for the development and commercialization of a clinical stage oral new chemical entity which forms a part of our Proprietary Products segment during the three months ended June 30, 2016 (refer to Note 26 of these interim financial statements for further details); and

Rs.1,148 million (U.S.\$17 million) paid to Ducere Pharma LLC for purchase of portfolio of OTC brands which form a part of our Global Generics segment during the three months ended June 30, 2016 (refer to Note 26 of these interim financial statements for further details).

Cash Flows from Financing Activities

Our financing activities resulted in a net cash inflow of Rs.1,291 million and a net cash outflow of Rs.12,292 million for the three months ended June 30, 2017 and 2016, respectively.

During the three months ended June 30, 2017, there was a decrease in net short-term borrowings by Rs.17,349 million, primarily on account of repayment of Rs.23,222 million by our Swiss Subsidiary which was offset by new long-term borrowings of Rs.18,950 million incurred by our subsidiaries in Switzerland and Germany (refer to note 12 of these interim financial statement for further details).

During the three months ended June 30, 2016, we bought back and extinguished 5,077,504 equity shares for an aggregate purchase price of Rs.15,694 million (refer to note 15 of these interim financial statements for further details). Further, we had incurred net short-term borrowings of Rs.3,538 million during the three months ended June 30, 2016.

Table of Contents**Principal Debt Obligations**

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

| Debt | Principal Amount | | Currency ⁽¹⁾ | Interest Rate |
|--|---|-----|-------------------------|---------------------------|
| | (U.S.\$ in millions, Rs. in millions) <i>Convenience translation into U.S.\$</i> | | | |
| Packing credit borrowings (short-term) | U.S.\$ | 297 | Rs. 19,160 | USD LIBOR + (30) to 1 bps |
| | | | | INR T-Bill + 30 bps |
| | | | | INR 6.92% to 6.95% |
| | | | | RUB 9.95% |
| Other short-term borrowings | | 103 | 6,648 | USD LIBOR + 75 to 85 bps |
| | | | | RUB 10.48% |
| Long-term borrowings | | | | UAH 11.70% to 11.80% |
| | | 371 | 23,944 | USD LIBOR + 45 to 135 bps |
| | | | | EUR 0.81% |

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

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ITEM 4. OTHER MATTERS

Civil Investigative Demand from the Office of the Attorney General, State of Texas

On or about November 10, 2014, Dr. Reddy's Laboratories, Inc., one of our subsidiaries in the U.S., received a Civil Investigative Demand (CID) from the Office of the Attorney General, State of Texas (the Texas AG) requesting certain information, documents and data regarding sales and price reporting in the U.S. marketplace of certain products for the period of time between January 1, 1995 and the date of the CID. We have responded to all of the Texas AG's requests to date, and we understand that the investigation is continuing.

Subpoena duces tecum from the Office of the Attorney General, California

On November 3, 2014, Dr. Reddy's Laboratories, Inc. received a subpoena duces tecum to appear before the Office of the Attorney General, California (the California AG) and produce records and documents relating to the pricing of certain products. A set of five interrogatories related to pricing practices was served as well. On July 18, 2016, the California AG sent a letter to inform Dr. Reddy's Laboratories, Inc. that, in light of the information provided to that date, no further information would be requested at present in response to this subpoena.

Subpoenas from the Division of the U.S. Department of Justice (DOJ) and the office of the Attorney General for the State of Connecticut

On July 6, 2016 and August 7, 2016, one of our subsidiaries received subpoenas from the DOJ and the office of the Attorney General for the State of Connecticut, respectively, seeking information relating to the marketing, pricing and sale of certain of our generic products and any communications with competitors about such products. We have been cooperating, and intend to fully cooperate, with these inquiries.

Agreement with Amgen

During the three months ended September 30, 2016, we entered into an agreement with Amgen Inc. (Amgen) that effectively expands the strategic collaboration we entered with Amgen in August 2015. Under the terms of the new agreement, we will commercialize the oncology and osteoporosis medicines XGEVA® (denosumab), Vectibix® (panitumumab) and Prolia® (denosumab) in India.

Implementation of Goods and Services Tax in India

Effective July 1, 2017, a Goods and Services Tax (GST) was introduced in India. The GST is a destination-based tax and replaced various taxes imposed by India's central and state governments. The GST implementation impacts us in various ways, including through increased tax rates on transactions in India.

The GST tax rate is equal to 12% of the transaction value (or 10.71% of the medicine's Maximum Retail Price (MRP)) for most finished dosage medicines and 18% of the transaction value for most active pharmaceuticals ingredients. In comparison, prior to the GST implementation, India's excise duty and value added taxes were at a combined tax rate of 8.66% of the MRP for finished dosage medicines and 17.5% of assessable value for most active pharmaceuticals ingredients. Consequent to the implementation of the GST, India's National Pharmaceuticals Pricing Authority issued a notification dated June 9, 2017 that allowed for the revision of the ceiling price for scheduled formulations, except those which were previously exempted from excise duty. However, in case of non-scheduled formulations, such price revision is not allowed except to the extent of the previous permissible limit of 10% of MRP when compared to the MRP of the preceding 12 months. We have revised prices on certain of our products in compliance with this

notification.

In addition, the GST rules require electronic systems and special software for billing and monthly filings of GST returns. The transition to the GST system requires significant time and attention and imposes significant expense on us as well as our Indian supply chain and distribution channel, particularly for small businesses within our distribution channel that need to shift from manual records to electronic records, although there is a two-month grace period for businesses to file returns.

During the three months ended June 30, 2017, we experienced reduction in sales volume of our existing products as our customers in India reduced their inventory holdings in anticipation of the transition to the GST system.

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ITEM 5. EXHIBITS

| Exhibit Number | Description of Exhibits |
|----------------|---|
| 99.1 | Report of Independent Registered Public Accounting Firm |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DR. REDDY S LABORATORIES LIMITED

(Registrant)

Date: August 8, 2017

By: /s/ Sandeep Poddar

Name: Sandeep Poddar

Title: Company Secretary

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