DR REDDYS LABORATORIES LTD
Form 20-F
September 26, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 20-F

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended March 31, 2007

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

OR

o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report _____

Commission File Number: 1-15182

DR. REDDY S LABORATORIES LIMITED

(Exact name of Registrant as specified in its charter)

Not Applicable	**ANDHRA PRADESH, INDIA**
(Translation of Registrant s name into English)	(Jurisdiction of incorporation or organization)

7-1-27, Ameerpet
Hyderabad, Andhra Pradesh 500 016, India
+91-40-23731946

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of Each Class	**Name of Each Exchange on which Registered**
American depositary shares, each representing one equity share	**New York Stock Exchange**
Equity Shares*	**New York Stock Exchange**

***Not for trading, but only in connection with the registration of American depositary shares, pursuant to the requirements of the Securities and Exchange Commission**.

Securities registered or to be registered pursuant to Section 12(g) of the Act. None.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act. None.

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

167,912,180 Equity Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes þ No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes o No þ

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YesYes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Securities Exchange Act of 1934. (Check one):

Large accelerated filerYes þ Accelerated filer o Non-accelerated filer o

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 þ

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Yes o No þ

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Currency of Presentation and Certain Defined Terms

In this annual report on Form 20-F, references to $ or U.S.$ or dollars or U.S. dollars are to the legal currency of the United States and references to Rs. or rupees or Indian rupees are to the legal currency of India. Our financial statements are presented in Indian rupees and translated into U.S. dollars and are prepared in accordance with United States Generally Accepted Accounting Principles (U.S. GAAP). References to Indian GAAP are to Indian Generally Accepted Accounting Principles. References to a particular fiscal year are to our fiscal year ended March 31 of such year. References to our ADSs are to our American Depositary Shares.

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 , DRL , Dr. Reddy s or the Company shall mean Dr. Reddy s Laboratories Limited and its subsidiaries. Dr. Reddy s is a registered trademark of Dr. Reddy s Laboratories Limited in India. Other trademarks or trade names used in this annual report on Form 20-F are trademarks registered in the name of Dr. Reddy s Laboratories Limited or are pending before the respective trademark registries.

Except as otherwise stated in this report, all translations from Indian rupees to U.S. dollars are based on the noon buying rate in the City of New York on March 30, 2007 for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York, which was Rs.43.10 per U.S.$1.00. No representation is made that the Indian rupee amounts have been, could have been or could be converted into U.S. dollars at such a rate or any other rate. As of September 24, 2007, that rate was Rs.39.50 per U.S.$1.00.

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 Annual Report and no portion of such information is incorporated herein.

Forward-looking and Cautionary Statement

IN ADDITION TO HISTORICAL INFORMATION, THIS ANNUAL 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 EXCHANGE ACT). 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 SECTIONS ENTITLED RISK FACTORS AND OPERATING AND FINANCIAL REVIEW AND PROSPECTS AND ELSEWHERE IN THIS REPORT. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH REFLECT MANAGEMENT S ANALYSIS ONLY AS OF THE DATE HEREOF. IN ADDITION, READERS SHOULD CAREFULLY REVIEW THE OTHER INFORMATION IN THIS ANNUAL REPORT AND IN OUR PERIODIC REPORTS AND OTHER DOCUMENTS FILED AND/OR FURNISHED WITH THE SECURITIES AND EXCHANGE COMMISSION (SEC) FROM TIME TO TIME.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

3.A. ***Selected financial data***

The selected consolidated financial data should be read in conjunction with the consolidated financial statements, the related notes and operating and financial review and prospects, which are included elsewhere in this annual report. The selected consolidated statements of income data for the five years ended March 31, 2007 and selected consolidated balance sheet data as of March 31, 2003, 2004, 2005, 2006 and 2007 have been prepared and presented in accordance with U.S. GAAP and have been derived from our audited consolidated financial statements and related notes except for cash dividend per share. The selected consolidated financial data presented below for fiscal year 2006 reflects the acquisition of Industrias Quimicas Falcon de Mexico effective December 30, 2005 and beta Holding GmbH effective March 3, 2006. The selected consolidated financial data presented below for fiscal year 2006 reflects the acquisition of Industrias Quimicas Falcon de Mexico effective December 30, 2005 and beta Holding GmbH effective March 3, 2006 and therefore the results for fiscal year 2006 are not comparable to the results for prior fiscal years. The selected consolidated financial data presented below for fiscal year 2007 reflects the acquisition of Industrias Quimicas Falcon de Mexico and beta Holding GmbH for the full year and hence is not comparable with results for prior fiscal years.

	Fiscal Year Ended March 31,					
	2003**	**2004****	**2005****	**2006**	**2007**	
	(Rs.in millions, U.S.$ in thousands, except share and per share data)					
						Convenience translation into U.S.$ (unaudited)
Income Statement Data:						
Product sales	Rs. 18,069.8	Rs. 20,081.2	Rs. 19,126.2	Rs. 24,077.2	Rs. 64,185.4	U.S.$ 1,489,220
License fees			345.7	47.5	27.5	639
Services income	3.9	22.3	47.5	142.3	882.2	20,468
Total revenues	18,073.7	20,103.5	19,519.4	24,267.0	65,095.1	1,510,327
Cost of revenues	7,744.9	9,337.3	9,385.9	12,417.4	34,219.5	793,957
Gross profit	10,328.8	10,766.2	10,133.5	11,849.6	30,875.6	716,370
Operating expenses:						
Selling, general and administrative expenses	5,103.2	6,542.5	6,774.6	8,028.9	14,051.1	326,012
Research and development expenses, net	1,411.8	1,991.6	2,803.3	2,153.0	2,462.7	57,138
Amortization expenses	419.5	382.9	349.9	419.9	1,570.9	36,448

Write-down of intangible assets									1,770.2			41,072
Foreign exchange (gain)/loss		70.1		(282.5)		488.8		126.3	(136.8)			(3,173)
Other operating (income) / expenses, net		0.2		83.2		6.0		(320.4)	(67.0)			(1,555)
Total operating expenses		7,004.8		8,717.7		10,422.6		10,407.7	19,651.1			455,942
Operating income/(loss)		3,324.0		2,048.5		(289.1)		1,441.9	11,224.5			260,428
Equity in loss of affiliates		(92.1)		(44.4)		(58.1)		(88.2)	(62.7)			(1,454)
Other (expense) / income, net		576.8		535.9		454.2		533.6	(661.5)			(15,348)
Income before income taxes and minority interest		3,808.7		2,540.0		107.0		1,887.3	10,500.3			243,626
Income taxes (expense)/benefit		(398.1)		(69.2)		94.3		(258.3)	(1,176.9)			(27,307)
Minority interest		(6.7)		3.4		9.9		(0.1)	3.5			81
Net income	Rs.	3,403.9	Rs.	2,474.2	Rs.	211.2	Rs.	1,628.9	Rs. 9,326.9	U.S.$		216,400
Earnings per equity share:												
Basic	Rs.	22.24	Rs.	16.17	Rs.	1.38	Rs.	10.64	Rs. 58.82	U.S.$		1.36
Diluted	Rs.	22.24	Rs.	16.16	Rs.	1.38	Rs.	10.62	Rs. 58.56	U.S.$		1.36
Weighted average number of equity shares used in computing earnings per equity share:*												
Basic***		153,031,896		153,027,528		153,037,898		153,093,316	158,552,422			158,552,422
Diluted***		153,031,896		153,099,196		153,119,602		153,403,846	159,256,476			159,256,476
Cash dividend per share (excluding dividend tax)	Rs.	2.50	Rs.	5.00	Rs.	5.00	Rs.	5.00	Rs. 3.75	U.S.$		0.09

* Each ADR represents one equity share.

** Effective as of fiscal year 2004, we selected the

retroactive modified method of adoption described in Statement of Financial Accounting Standards No. 148 *Accounting for Stock Based Compensation Transition and Disclosure.* Accordingly, the operating results for the fiscal year ended March 31, 2003, which is the only prior period impacted, have been modified in accordance with the retroactive modified method of adoption.

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The Company has reclassified certain expense/income for the fiscal years ended March 31, 2003, 2004 and 2005, between cost of revenues, operating expenses, revenues, other expense/income and other operating expense/income, to conform to the presentation for the year ended March 31, 2006. These reclassifications increased the previously reported gross profit of fiscal year 2003, 2004 and 2005 by Rs.106.6 million, Rs.31.1 million and Rs.47.4 million, respectively, and increased / (reduced) the previously reported operating income of fiscal years 2003 and 2004 by Rs.106.4 million and Rs.(31.7) million, respectively, and reduced the operating loss for the fiscal year 2005 by Rs.77.3

million. There is however, no change in the previously reported net income for the fiscal years 2003, 2004 and 2005.

*** On August 30, 2006, we distributed a stock dividend of one equity share for each equity share and ADS issued and outstanding as of August 29, 2006. The number of equity shares and per share information presented in the above select consolidated financial data reflect the effect of this stock dividend.

	Fiscal Year Ended March 31,					
	2003	**2004**	**2005**	**2006**	**2007**	
	(Rs.in millions, U.S.$ in thousands)					
						Convenience translation into U.S.$(unaudited)
Other Data:						
Net cash provided by / (used in):						
Operating activities	Rs. 4,366.7	Rs. 3,999.2	Rs. 2,291.6	Rs. 1,643.1	Rs. 11,804.5	U.S.$273,887
Investing activities	(1,954.7)	(6,506.1)	632.9	(34,524.4)	592.5	13,746
Financing activities	(153)	(376.1)	1,931.3	27,210.9	1,753.7	40,689
Effect of exchange rate changes on cash	(95)	(14.2)	55.8	95.1	118.2	2,741
Expenditures on property, plant and equipment	(1,515.7)	(2,415.6)	(1,749.2)	(1,873.3)	(4,477.2)	(103,879)

	As of March 31,

	2003	2004	2005	2006	2007	
	(Rs.in millions, U.S.$ in thousands)					
						Convenience translation into U.S.$(unaudited)
Balance Sheet Data:						
Cash and cash equivalents	Rs. 7,273.4	Rs. 4,376.2	Rs. 9,287.9	Rs. 3,712.6	Rs. 17,981.4	U.S.$417,203
Working capital	12,023.5	11,103.3	10,770.9	1,345.1	18,933.0	439,280
Total assets	23,091.7	26,619.3	29,288.4	68,768.1	85,919.1	1,993,483
Total long-term debt, excluding current portion	40.91	31.0	25.1	20,937.1	17,871.0	414,640
Net assets	18,831.8	21,039.4	20,953.2	22,271.7	41,578.2	964,692
Total stockholders equity	18,831.8	21,039.4	20,953.2	22,271.7	41,578.2	964,692

Exchange Rates

The following table sets forth, for the fiscal years indicated, information concerning the number of Indian rupees for which one U.S. dollar could be exchanged based on the average of the noon buying rate in the City of New York on the last business day of each month during the period for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York. The column titled Average in the table below is the average of the daily noon buying rate on the last business day of each month during the year.

Fiscal Year Ended March 31,	Period End	Average	High	Low
2003	47.53	48.43	49.07	47.53
2004	43.40	45.96	47.46	43.40
2005	43.62	44.86	46.45	43.27
2006	44.48	44.17	46.26	43.05
2007	43.10	45.06	46.83	42.78

The following table sets forth the high and low exchange rates for the previous six months and is based on the average of the noon buying rate in the City of New York on the last business day of each month during the period for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York:

Month	High	Low
Mar 2007	44.43	42.78
April 2007	43.05	40.56
May 2007	41.04	40.14
June 2007	40.27	40.90
July 2007	40.12	40.42
August 2007	41.15	40.25

On September 24, 2007 the noon buying rate in the city of New York was Rs.39.50 per U.S. dollar.

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3.B. ***Capitalization and indebtedness***

Not applicable.

3.C. ***Reasons for the offer and use of proceeds***

Not applicable.

3.D. ***Risk factors***

You should carefully consider all of the information set forth in this Form 20-F and the following risk factors that we face and that are faced by our industry. The risks below are not the only ones we face. Additional risks not currently known to us or that we presently deem immaterial may also affect our business operations. Our business, financial condition or results of operations could be materially or adversely affected by any of these risks. This Form 20-F also contains forward-looking statements that involve risks and uncertainties. Our results could materially differ from those anticipated in these forward-looking statements as a result of certain factors, including the risks we face as described below and elsewhere. See Forward-Looking Statements.

RISKS RELATING TO OUR COMPANY AND OUR BUSINESS

Failure of our research and development efforts may restrict introduction of new products, which is critical to our business.

Our future results of operations depend, to a significant degree, upon our ability to successfully commercialize additional products in our active pharmaceutical ingredients and intermediates, generics and formulations, critical care and biotechnology and drug discovery businesses, as well as our most recent business focus, specialty pharmaceuticals. We must develop, test and manufacture generic products as well as prove that our generic products are the bio-equivalent of their branded counterparts. All of our products must meet and continue to comply with regulatory and safety standards and receive regulatory approvals; we may be forced to withdraw a product from the market if health or safety concerns arise with respect to such product. The development and commercialization process, particularly with respect to innovative products, is both time consuming and costly and involves a high degree of business risk. Our products currently under development, if and when fully developed and tested, may not perform as we expect, necessary regulatory approvals may not be obtained in a timely manner, if at all, and we may not be able to successfully and profitably produce and market such products.

To develop our products pipeline, we commit substantial efforts, funds and other resources to research and development, both through our own dedicated resources and our collaborations with third parties. Our ongoing investments in new product launches and research and development for future products could result in higher costs without a proportionate increase in revenues. Our overall profitability depends on our ability to continue developing commercially successful products.

Our dependence on research and development makes it highly important that we recruit and retain high quality researchers and development specialists. Should we fail in our efforts, this could adversely affect our ability to continue developing commercially successful products and, thus, our overall profitability.

If we cannot respond adequately to the increased competition we expect to face in the future, we will lose market share and our profits will go down.

Our products face intense competition from products commercialized or under development by competitors in all our business segments based in India and overseas. Many of our competitors have greater financial resources and marketing capabilities than we do. Some of our competitors, especially multinational pharmaceutical companies, have greater experience than we do in clinical testing and human clinical trials of pharmaceutical products and in obtaining regulatory approvals. Our competitors may succeed in developing technologies and products that are more effective, more popular or cheaper than any we may develop or license. These developments could render our technologies and products obsolete or uncompetitive, which would harm our business and financial results. We believe some of our competitors have broader product ranges, stronger sales forces and better segment positioning than us, which enables them to compete effectively.

To the extent that we succeed in being the first to market a generic version of a significant product, and particularly if we obtain the 180-day period of market exclusivity provided under the Hatch-Waxman Act of 1984, as amended, our sales and profit can be substantially increased in the period following the introduction of such product and prior to a competitor s introduction of the equivalent product or the launch of an authorized generic. Selling prices of generic

drugs typically decline, sometimes dramatically, as additional companies receive approvals for a given product and competition intensifies. Our ability to sustain our sales and

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profitability of any product over time is dependent on both the number of new competitors for such product and the timing of their approvals.

Our generics business is also facing increasing competition from brand-name manufacturers who do not face any significant regulatory approvals or barriers to entry into the generics market. These brand-name companies sell generic versions of their products to the market directly or by acquiring or forming strategic alliances with our competitor generic pharmaceutical companies or by granting them rights to sell authorized generics. Moreover, brand-name companies continually seek new ways to delay the introduction of generic products and decrease the impact of generic competition, such as filing new patents on drugs whose original patent protection is about to expire, developing patented controlled-release products, changing product claims and product labeling, or developing and marketing as over-the-counter products those branded products which are about to face generic competition.

If we cannot maintain our position in the Indian pharmaceutical industry in the future, we may not be able to attract co-development, outsourcing or licensing partners and may lose market share.

In order to attract multinational corporations into co-development and licensing arrangements, it is necessary for us to maintain the position of a leading pharmaceutical company in India. Multinational corporations have been increasing their outsourcing of both active pharmaceutical ingredients and generic formulations to highly regarded companies that can produce high quality products at low cost that conform to standards set in developed markets. If we cannot maintain our current position in the market, we may not be able to attract outsourcing or licensing partners and may lose market share.

If we fail to comply fully with government regulations applicable to our research and development activities or regarding the manufacture of our products, it may delay or prevent us from developing or manufacturing our products.

Our research and development activities are heavily regulated. If we fail to comply fully with applicable regulations, then there could be a delay in the submission or approval of potential new products for marketing approval. In addition, the submission of an application to a regulatory authority does not guarantee that a license to market the product will be granted. Each authority may impose its own requirements and/or delay or refuse to grant approval, even when a product has already been approved in another country. In the United States, as well as many of the international markets into which we sell our products, the approval process for a new product is complex, lengthy and expensive. The time taken to obtain approval varies by country but generally takes from six months to several years from the date of application. This registration process increases the cost to us of developing new products and increases the risk that we will not be able to successfully sell such new products.

Also, governmental authorities, including the U.S. Food and Drug Administration (U.S. FDA), heavily regulate the manufacture of our products. If we or our third party suppliers fail to comply fully with such regulations, then there could be a government-enforced shutdown of production facilities, which in turn could lead to product shortages. A failure to comply fully with such regulations could also lead to a delay in the approval of new products.

Reforms in the health care industry and the uncertainty associated with pharmaceutical pricing, reimbursement and related matters could adversely affect the marketing, pricing and demand for our products.

Increasing expenditures for health care have been the subject of considerable public attention in almost every jurisdiction where we conduct business. Both private and governmental entities are seeking ways to reduce or contain health care costs. In many countries in which we currently operate, including India, pharmaceutical prices are subject to regulation. The existence of price controls can limit the revenues we earn from our products. In the United States, numerous proposals that would effect changes in the United States health care system have been introduced or proposed in Congress and in some state legislatures, including the enactment in December 2003 of expanded Medicare coverage for drugs, which became effective in January 2006. In Germany, an important market for us, the government has introduced several healthcare reforms in order to control healthcare spending and promote the prescribing of generic drugs. As a result, the prices of generic pharmaceutical products in Germany have declined and may further decline in the future. Similar developments may take place in our other key markets. We cannot predict the nature of the measures that may be adopted or their impact on the marketing, pricing and demand for our products.

In addition, governments throughout the world heavily regulate the marketing of our products. Most countries also place restrictions on the manner and scope of permissible marketing to physicians, pharmacies and other health care professionals. The effect of such regulations may be to limit the amount of revenue that we may be able to derive from a particular product. Moreover, if we fail to comply fully with such regulations, then civil or criminal actions could be brought against us.

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If a regulatory agency amends or withdraws existing approvals to market our products, this may cause our revenues to decline.

Regulatory agencies may at any time reassess the safety and efficacy of our products based on new scientific knowledge or other factors. Such reassessments could result in the amendment or withdrawal of existing approvals to market our products, which in turn could result in a loss of revenue, and could serve as an inducement to bring lawsuits against us.

If we are sued by consumers for defects in our products, it could harm our reputation and thus our profits.

Our business inherently exposes us to potential product liability. From time to time, the pharmaceutical industry has experienced difficulty in obtaining desired amounts of product liability insurance coverage. Although we have obtained product liability coverage with respect to products that we manufacture, if any product liability claim sustained against us were to be not covered by insurance or were to exceed the policy limits, it could harm our business and financial condition. This risk is likely to increase as we develop our own new-patented products in addition to making generic versions of drugs that have been in the market for some time.

In addition, product liability coverage for pharmaceutical companies is becoming more expensive. As a result, we may not be able to obtain the type and amount of coverage we desire. Furthermore, the severity and timing of future claims are unpredictable. Our customers may also bring lawsuits against us for alleged product defects. The existence, or even threat of, a major product liability claim could also damage our reputation and affect consumers views of our other products, thereby negatively affecting our business, financial condition and results of operations.

If we are unable to patent new products and processes or to protect our intellectual property rights or proprietary information, or if we infringe on the patents of others, our business may be materially and adversely impacted.

Our overall profitability depends, among other things, on our ability to continuously and timely introduce new generic as well as innovative products. Our success will depend, in part, on our ability in the future to obtain patents, protect trade secrets, intellectual property rights and other proprietary information and operate without infringing on the proprietary rights of others. Our competitors may have filed patent applications, or hold issued patents, relating to products or processes that compete with those we are developing, or their patents may impair our ability to successfully develop and commercialize new products.

Our success with our innovative products depends, in part, on our ability to protect our current and future innovative products and to defend our intellectual property rights. If we fail to adequately protect our intellectual property, competitors may manufacture and market products similar to ours. We have been issued patents covering our innovative products and processes and have filed, and expect to continue to file, patent applications seeking to protect our newly developed technologies and products in various countries, including the United States. Any existing or future patents issued to or licensed by us may not provide us with any competitive advantages for our products or may even be challenged, invalidated or circumvented by competitors. In addition, such patent rights may not prevent our competitors from developing, using or commercializing products that are similar or functionally equivalent to our products.

We also rely on trade secrets, unpatented proprietary know-how and continuing technological innovation that we seek to protect, in part by confidentiality agreements with licensees, suppliers, employees and consultants. It is possible that these agreements will be breached and we will not have adequate remedies for any such breach. Disputes may arise concerning the ownership of intellectual property or the applicability of confidentiality agreements. Furthermore, our trade secrets and proprietary technology may otherwise become known or be independently developed by our competitors or we may not be able to maintain the confidentiality of information relating to such products.

Changes in the regulatory environment may prevent us from utilizing the exclusivity periods that are important to the success of our generic products.

The policy of the U.S. FDA regarding the award of 180 days of market exclusivity to generic manufacturers who challenge patents relating to specific products continues to be the subject of extensive litigation in the United States. During this 180-day market exclusivity period, nobody other than the generic manufacturer who won exclusivity relating to the specific product can market that product. The U.S. FDA s current interpretation of the Hatch-Waxman

Act of 1984 is to award 180 days of exclusivity to the first generic manufacturer who files a Paragraph IV certification under the Hatch-Waxman Act challenging the patent of the branded product, regardless of whether that generic manufacturer was sued for patent infringement.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 amended the Hatch-Waxman Act and provide that the 180-day market exclusivity period is triggered by the commercial marketing of the product, as opposed to the old rule under which

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the exclusivity period was triggered by a final, non-appealable court decision. However, the Medicare Prescription Drug Act also contains forfeiture provisions, which, if met, will deprive the first Paragraph IV filer of exclusivity. As a result, under certain circumstances, we may not be able to exploit our 180-day exclusivity period since it may be forfeited prior to our being able to market the product.

In addition, legal and administrative disputes over triggering dates and shared exclusivities may also prevent us from fully utilizing the exclusivity periods.

If we are unable to defend ourselves in patent challenges, we could be subject to injunctions preventing us from selling our products, resulting in a decrease in revenues, or we could be subject to substantial liabilities that would lower our profits.

There has been substantial patent related litigation in the pharmaceutical industry concerning the manufacture, use and sale of various products. In the normal course of business, we are regularly subject to lawsuits and the ultimate outcome of litigation could adversely affect our results of operations, financial condition and cash flow. Regardless of regulatory approval, lawsuits are periodically commenced against us with respect to alleged patent infringements by us, such suits often being triggered by our filing of an application for governmental approval, such as a new drug application. The expense of any such litigation and the resulting disruption to our business, whether or not we are successful, could harm our business. The uncertainties inherent in patent litigation make it difficult for us to predict the outcome of any such litigation.

If we are unsuccessful in defending ourselves against these suits, we could be subject to injunctions preventing us from selling our products, resulting in a decrease in revenues, or to damages, which may be substantial. An injunction or substantial damages resulting from these suits could adversely effect our consolidated financial position, results of operations or liquidity.

If we elect to sell a generic product prior to the final resolution of outstanding patent litigation, we could be subject to liabilities for damages.

At times we seek approval to market generic products before the expiration of patents for those products, based upon our belief that such patents are invalid, unenforceable, or would not be infringed by our products. As a result, we are involved in patent litigations, the outcome of which could materially adversely affect our business. Based upon a complex analysis of a variety of legal and commercial factors, we may elect to market a generic product even though litigation is still pending. This could be before any court decision is rendered or while an appeal of a lower court decision is pending. To the extent we elect to proceed in this manner, if the final court decision is adverse to us, we could be required to cease the sale of the infringing products and face substantial liability for patent infringement. These damages may be significant as they may be measured by a royalty on our sales or by the profits lost by the patent owner and not by the profits we earned. Because of the discount pricing typically involved with generic pharmaceutical products, patented brand products generally realize a significantly higher profit margin than generic pharmaceutical products. In the case of a willful infringer, the definition of which is unclear, these damages may even be trebled. In April 2006, we launched, and continue to sell, generic versions of Allegra® (fexofenadine) despite the fact that litigation with the company that holds the patents for and sells this branded product is still pending. This is the only product that we have launched prior to the resolution of outstanding patent litigation.

If we do not maintain and increase our arrangements for overseas distribution of our products, our revenues and net income could decrease.

As of March 31, 2007, we market our products in over 86 countries. Our products are marketed in most of these countries through our subsidiaries as well as joint ventures. Since we do not have the resources to market and distribute our products ourselves in all our export markets, we also market and distribute our products through third parties by way of marketing and agency arrangements. These arrangements may be terminated by either party providing the other with notice of termination or when the contract regarding the arrangement expires. We may not be able to successfully negotiate these third party arrangements or find suitable joint venture partners in the future. Any of these arrangements may not be available on commercially reasonable terms. Additionally, our marketing partners may make important marketing and other commercialization decisions with respect to products we develop without our input. As a result, many of the variables that may affect our revenues and net income are not exclusively within our control when we enter into arrangements like these.

If we fail to comply with environmental laws and regulations or face environmental litigation, our costs may increase or our revenues may decrease.

We may incur substantial costs complying with requirements of environmental laws and regulations. In addition, we may discover currently unknown environmental problems or conditions. In all countries in which we have production facilities, we are subject to significant environmental laws and regulations which govern the discharge, emission, storage, handling and disposal of a variety of substances that may be used in or result from our operations. If any of our plants or the operations of such plants are shut down, we

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may continue to incur costs in complying with regulations, appealing any decision to close our facilities, maintaining production at our existing facilities and continuing to pay labor and other costs which may continue even if the facility is closed. As a result, our overall operating expenses may increase and our profits may decrease.

Our equity shares and our ADSs may be subject to market price volatility, and the market price of our equity shares and ADSs may decline disproportionately in response to adverse developments that are unrelated to our operating performance.

Market prices for the securities of Indian pharmaceutical companies, including our own, have historically been highly volatile, and the market has from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. Factors such as the following can have an adverse effect on the market price of our ADSs and equity shares:

- general market conditions,
- speculative trading in our shares and ADSs,
- changes in the weight given to our shares in the Bombay Stock Exchange Limited (BSE) and National Stock Exchange of India Limited (NSE) indices, and
- developments relating to our peer companies in the pharmaceutical industry.

If the world economy is affected due to terrorism, wars or epidemics, it may adversely affect our business and results of operations.

Several areas of the world, including India, have experienced terrorist acts and retaliatory operations recently. For example, Mumbai was the target of serial railway bombings in July 2006. If the economy of our major markets is affected by such acts, our business and results of operations may be adversely affected as a consequence.

In recent years, Asia has experienced outbreaks of avian influenza and Severe Acute Respiratory Syndrome, or SARS. If the economy of our major markets is affected by such outbreaks or other epidemics, our business and results of operations may be adversely affected as a consequence.

If we have difficulty in identifying acquisition candidates or consummating acquisitions, our competitiveness and our growth prospects may be harmed.

In order to enhance our business, we frequently seek to acquire or make strategic investments in complementary businesses or products, or to enter into strategic partnerships or alliances with third parties. It is possible that we may not identify suitable acquisition, strategic investment or strategic partnership candidates, or if we do identify suitable candidates, we may not complete those transactions on terms commercially acceptable to us or at all. We compete with others to acquire companies, and we believe that this competition has intensified and may result in decreased availability or increased prices for suitable acquisition candidates. Even after we identify acquisition candidates and/or announce that we plan to acquire a company, we may ultimately fail to consummate the acquisition. For example, we may be unable to obtain necessary acquisition financing on terms satisfactory to us or may be unable to obtain necessary regulatory approvals, including the approval of antitrust regulatory bodies. The inability to identify suitable acquisition targets or investments or the inability to complete such transactions and the management and financial resources required to pursue such transactions may affect our competitiveness and our growth prospects.

If we acquire other companies, our business may be harmed by difficulties in integration and employee retention, unidentified liabilities of the acquired companies, or obligations incurred in connection with acquisition financings.

All acquisitions involve known and unknown risks that could adversely affect our future revenues and operating results. For example:

- We may fail to successfully integrate our acquisitions in accordance with our business strategy.
- Integration of acquisitions may divert management s attention away from our primary product offerings, resulting in the loss of key customers and/or personnel, and may expose us to unanticipated liabilities.

We may not be able to retain the skilled employees and experienced management that may be necessary to operate the businesses we acquire. If we cannot retain such personnel, we may not be able to locate or hire new skilled employees and experienced management to replace them.

We may purchase a company that has contingent liabilities that include, among others, known or unknown patent or product liability claims.

Our acquisition strategy may require us to obtain additional debt or equity financing, resulting in additional leverage, or increased debt obligations as compared to equity, and dilution of ownership.

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We may purchase companies located in jurisdictions where we do not have operations and as a result we may not be able to anticipate local regulations and the impact such regulations have on our business.

In addition, if we make one or more significant acquisitions in which the consideration includes the equity shares or other securities, equity interests in us held by holders of the equity shares may be significantly diluted. If we make one or more significant acquisitions in which the consideration includes cash, we may be required to use a substantial portion of our available cash or incur a significant amount of debt or otherwise arrange additional funds to complete the acquisition, which may result in a dilution of earnings per equity share.

Our principal shareholders control us and, if they take actions that are not in your best interests, the value of your investment in our ADSs may be harmed.

Our full time directors together with members of their immediate families, in the aggregate, beneficially own 25.18% of our issued shares as at March 31, 2007. As a result, these people, acting in concert, are likely to have the ability to exercise significant control over most matters requiring approval by our shareholders, including the election and removal of directors and significant corporate transactions. This control by these directors and their family members could delay, defer or prevent a change in control of us, impede a merger, consolidation, takeover or other business combination involving us, or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, even if that was in our best interest. As a result, the value of your ADSs may be adversely affected or you might be deprived of a potential opportunity to sell your ADSs at a premium.

If we improperly handle any of the dangerous materials used in our business and accidents result, we could face significant liabilities that would lower our profits.

We handle dangerous materials including explosive, toxic and combustible materials like sodium azide, acrolein and acetyl chloride. If improperly handled or subjected to the wrong conditions, these materials could hurt our employees and other persons, cause damage to our properties and harm the environment. This, in turn, could subject us to significant litigation, which could lower our profits in the event we were found liable.

If there is delay and/or failure in supplies of materials, services and finished goods from third parties, it may adversely affect our business and results of operations.

In some of our businesses, we rely on third parties for the timely supply of active pharmaceutical ingredients (API), specified raw materials, equipment, formulation or packaging services and maintenance services. For instance, we rely on third party manufacturers for our entire supply of finished dosages sold in Germany. Although we actively manage these third party relationships to ensure continuity of supplies and services on time and to our required specifications, some events beyond our control could result in the complete or partial failure of supplies and services or in supplies and services not being delivered on time. Any such failure could adversely affect our results of business and results of operations.

In the event that we experience a shortage in our supply of raw materials, we might be unable to fulfill all of the API needs of our generics and formulations segments, which could result in a loss of production capacity for these segments. In addition, this could result in a conflict between the API needs of our generics and formulations segments and the needs of customers of our active pharmaceutical ingredients and intermediates segment, some of whom are also our competitors in the formulations segment. In either case, we could potentially lose business from adversely affected customers and we could be subjected to lawsuits.

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If as we expand into new international markets we fail to adequately understand and comply with the local laws and customs , these operations may incur losses or otherwise adversely affect our business and results of operations.

Currently, we operate our business through subsidiaries and equity investees in other countries. In those countries where we have limited experience in operating subsidiaries, such as Germany and Mexico, and in reviewing equity investees we are subject to additional risks related to complying with a wide variety of national and local laws, including restrictions on the import and export of certain intermediates, drugs, technologies and multiple and possibly overlapping tax structures. In addition, we may face competition in other countries from companies that may have more experience with operations in such countries or with international operations generally. We may also face difficulties integrating new facilities in different countries into our existing operations, as well as integrating employees that we hire in different countries into our existing corporate culture. If we do not effectively manage our operations in these subsidiaries and review equity investees effectively, we may lose money in these countries and it may adversely affect our business and results of operations.

Fluctuations in exchange rates and interest rate movements may adversely affect our business and results of operations.

Our principal subsidiaries are located in the United States, United Kingdom, Germany and Russia and each has significant local operations. A significant portion of our revenues are in other currencies, especially the U.S. dollar, Euro, Rouble and Pound Sterling, while a significant portion of our costs are in Indian rupees. As a result, if the value of the Indian rupee appreciates relative to these other currencies, our revenues measured in rupees may decrease.

We have entered into borrowing arrangements in connection with our acquisition of betapharm. In the future, we may enter into additional borrowing arrangements in connection with acquisitions or for general working capital purposes. In the event interest rates increase, our costs of borrowing will increase and our results of operations may be adversely affected.

Our success depends on our ability to retain and attract key qualified personnel and, if we are not able to retain them or recruit additional qualified personnel, we may be unable to successfully develop our business

We are highly dependent on the principal members of our management and scientific staff, the loss of whose services might significantly delay or prevent the achievement of our business or scientific objectives. In India, it is not our practice to enter employment agreements with our executive officers and key employees that are as extensive as are generally used in the United States, and each of those executive officers and key employees may terminate their employment upon notice and without cause or good reason. Currently we are not aware that any executive officer or key employee is planning to leave or retire. Competition among pharmaceutical companies for qualified employees is intense, and the ability to retain and attract qualified individuals is critical to our success. There can be no assurance that we will be able to retain and attract such individuals currently or in the future on acceptable terms, or at all, and the failure to do so would have a material adverse effect on our business, financial condition and results of operations. In addition, we do not maintain key person life insurance on any officer, employee or consultant.

We operate in a highly competitive and rapidly consolidating industry.

We operate in a highly competitive and rapidly consolidating industry. Our competitors, which include major multinational corporations, are consolidating, and the strength of the combined companies could affect our competitive position in all of our business areas. Furthermore, if one of our competitors or their customers acquire any of our customers or suppliers, we may lose business from the customer or lose a supplier of a critical raw material.

RISKS RELATING TO INVESTMENTS IN INDIAN COMPANIES

We are an Indian company and a substantial part of our operations are conducted, and most of our assets are located, in India. In addition, approximately 14.1% of our total revenues for fiscal 2007 were derived from sales in India. As a result, the following additional risk factors apply.

A slowdown in economic growth in India may adversely affect our business and results of operations.

Our performance and the quality and growth of our business are necessarily dependent on the health of the overall Indian economy. The Indian economy has grown significantly over the past few years. Any future slowdown in the Indian economy could harm us, our customers and other contractual counterparties. In addition, the Indian economy is in a state of transition. The share of the services sector of the economy is rising while that of the industrial,

manufacturing and agricultural sector is declining. It is difficult to gauge the impact of these fundamental economic changes on our business.

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A significant change in the Indian government or in its economic liberalization and deregulation policies may adversely affect the Indian economy, the health of which our business depends upon.

The Indian government has traditionally exercised and continues to exercise a dominant influence over many aspects of the economy. The present government is a multi-party coalition and therefore there is no assurance that it will be able to generate sufficient cross-party support to implement economic policies or that the existing economic policies will continue. Any significant change in the government s economic policies could have a significant effect on private-sector entities, including us, and on market conditions and prices of Indian securities, including our shares and our ADSs. India s trade relationships with other countries can also influence Indian economic conditions, which in turn can affect our business.

If communal disturbances or riots erupt in India, or if regional hostilities increase, this would adversely affect the Indian economy, which our business depends upon.

India has experienced communal disturbances, terrorist attacks and riots during recent years. If such disturbances continue or are exacerbated, our operational, sales and marketing activities may be adversely affected. Additionally, India has from time to time experienced hostilities with neighboring countries. The hostilities have continued sporadically. The hostilities between India and Pakistan are particularly threatening, because both India and Pakistan are nuclear powers. Hostilities and tensions may occur in the future and on a wider scale. These hostilities and tensions could lead to political or economic instability in India and harm our business operations, our future financial performance and the price of our shares and our ADSs.

If wage costs or inflation rise in India, it may adversely affect our competitive advantages over higher cost countries and our profits may decline.

Wage costs in India have historically been significantly lower than wage costs in developed countries and have been one of our competitive strengths. However, wage increases in India may increase our costs, reduce our profit margins and adversely affect our business and results of operations.

In addition, although India s inflation levels were relatively moderate during fiscal 2007, its inflation levels have been much higher at times during the past decade. According to the monthly economic report for March 2007 released by the department of economic affairs, Ministry of Finance in India, the annual inflation rate in India, as measured by the benchmark wholesale price index (Base 1993-94=100), was 5.74% for the week ended March 31, 2007 as compared with 3.98% for the week ended April 1, 2006. The trend may continue and the rate of inflation may further rise. We may not be able to pass these costs on to our customers by increasing the price we charge for our products. If this occurs, our profits may decline.

In the event that a natural disaster should occur in India, including drought, floods and earthquakes, it could adversely affect our production operations and cause our revenues to decline.

Our main facilities are situated around Hyderabad, India. This region has experienced earthquakes, floods and droughts in the past and has experienced droughts in recent years. In the event of a drought so serious that the drinking water in the region is limited, the government could cut the supply of water to all industries, including our facilities. This would adversely affect our production operations and reduce our revenues. Even if we take precautions to provide back-up support in the event of such a natural disaster, the disaster may nonetheless affect our facilities, harming production and ultimately our business.

Indian law imposes certain restrictions that limit a holder s ability to transfer the equity shares obtained upon conversion of ADSs and repatriate the proceeds of such transfer, which may cause our ADSs to trade at a premium or discount to the market price of our equity shares.

Under certain circumstances, the Reserve Bank of India must approve the sale of equity shares underlying ADSs by a non-resident of India to a resident of India. The Reserve Bank of India has given general permission to effect sales of existing shares or convertible debentures of an Indian company by a resident to a non-resident, subject to certain conditions, including the price at which the shares may be sold. Additionally, except under certain limited circumstances, if an investor seeks to convert the rupee proceeds from a sale of equity shares in India into foreign currency and then repatriate that foreign currency from India, he or she will have to obtain an additional approval from the Reserve Bank of India for each such transaction. Required approval from the Reserve Bank of India or any other government agency may not be obtained on terms favorable to a non-resident investor or at all.

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There are limits and conditions to the deposit of shares into the ADS facility.

Indian legal restrictions may limit the supply of our ADSs. The only way to add to the supply of our ADSs will be through a primary issuance because the depositary is not permitted to accept deposits of our outstanding shares and issue ADSs representing those shares. However, an investor in our ADSs who surrenders an ADS and withdraws our shares will be permitted to redeposit those shares in the depositary facility in exchange for our ADSs. In addition, an investor who has purchased our shares in the Indian market will be able to deposit them in the ADS program, but only in a number that does not exceed the number of underlying shares that have been withdrawn from and not re-deposited into the depositary facility. Moreover, there are restrictions on foreign institutional ownership of our shares as opposed to our ADSs.

There may be less company information available in Indian securities markets than securities markets in developed countries.

There is a difference between the level of regulation and monitoring of the Indian securities markets over the activities of investors, brokers and other participants, as compared to the level of regulation and monitoring of markets in the United States and other developed economies. The Securities and Exchange Board of India is responsible for improving disclosure and other regulatory standards for the Indian securities markets. The Securities and Exchange Board of India has issued regulations and guidelines on disclosure requirements, insider trading and other matters. There may, however, be less publicly available information about Indian companies than is regularly made available by public companies in developed countries, which could affect the market for our equity shares.

Indian stock exchange closures, broker defaults, settlement delays, and Indian government regulations on stock market operations could affect the market price and liquidity of our equity shares.

The Indian securities markets are smaller than the securities markets in the United States and Europe and have experienced volatility from time to time. The regulation and monitoring of the Indian securities market and the activities of investors, brokers and other participants differ, in some cases significantly, from those in the United States and some European countries. Indian stock exchanges have at times experienced problems, including temporary exchange closures, broker defaults and settlement delays and if similar problems were to recur, they could affect the market price and liquidity of the securities of Indian companies, including our shares. Furthermore, any change in Indian government regulations of stock markets could affect the market price and liquidity of our shares.

Financial instability in other countries, particularly emerging market countries in Asia, could affect our business and the price and liquidity of our shares and our ADSs.

The Indian markets and the Indian economy are influenced by economic and market conditions in other countries, particularly emerging market countries in Asia. Although economic conditions are different in each country, investors reactions to developments in one country can have adverse effects on the securities of companies in other countries, including India. Any worldwide financial instability or any loss of investor confidence in the financial systems of Asian or other emerging markets could increase volatility in Indian financial markets or adversely affect the Indian economy in general. Either of these results could harm our business, our future financial performance and the price of our shares and ADSs.

If you are not able to exercise preemptive rights available to other shareholders, your investment in our securities may be diluted.

A company incorporated in India must offer its holders of shares preemptive rights to subscribe and pay for a proportionate number of shares to maintain their existing ownership percentages prior to the issuance of any shares, unless these rights have been waived by at least 75.0% of the company s shareholders present and voting at a shareholders general meeting. U.S. investors in our ADSs may be unable to exercise preemptive rights for the shares underlying our ADSs unless a registration statement under the Securities Act of 1933 is effective with respect to the rights or an exemption from the registration requirements of the Securities Act is available. Our decision to file a registration statement will depend on the costs and potential liabilities associated with a registration statement as well as the perceived benefits of enabling U.S. investors in our ADSs to exercise their preemptive rights and any other factors we consider appropriate at the time. We might choose not to file a registration statement under these circumstances. If we issue any of these securities in the future, such securities may be issued to the depositary, which may sell them in the securities markets in India for the benefit of the investors in our ADSs. We cannot assure you as

to the value, if any, the depositary would receive upon the sale of these securities. To the extent that you are unable to exercise preemptive rights, your proportional interests in us would be reduced.

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If there is a change in tax regulations, it may increase our tax liabilities and thus adversely affect our financial results.

Currently, we enjoy various tax benefits and exemptions under Indian tax laws. Any changes in these laws, or their application in matters such as tax exemption on exportation income and transfer pricing, may increase our tax liability and thus adversely affect our financial results.

Stringent labor laws may adversely affect our ability to have flexible human resource policies.

Labor laws in India are more stringent than in other parts of the world. These laws may restrict our ability to have human resource policies that would allow us to react swiftly to the needs of our business.

If we experience labor union problems our production capacity and overall profitability could be negatively affected.

Approximately 10% of our employees belong to a number of different labor unions. If we experience problems with our labor unions, our production capacity and overall profitability could be negatively affected.

ITEM 4. INFORMATION ON OUR COMPANY

4.A. *History and development of our company*

Dr. Reddy s Laboratories Limited was incorporated in India under the Companies Act, 1956, by its promoter and our current Chairman, Dr. K. Anji Reddy as a Private Limited Company on February 24, 1984. We were converted to a Public Limited Company on December 6, 1985 and listed on the Indian Stock Exchanges in August 1986 and on the New York Stock Exchange on April 11, 2001. We are registered with the Registrar of Companies, Andhra Pradesh, Hyderabad, India as Company No. 4507 (Company Identification No. U85195AP1984PTC004507). Our registered office is situated at 7-1-27, Ameerpet, Hyderabad 500 016, Andhra Pradesh, India and the telephone number of our registered office is +91-40-23731946. The name and address of our registered agent in the United States is Dr. Reddy s Laboratories, Inc. 200 Somerset Corporate Boulevard (Bldg II), Bridgewater, New Jersey 08807.

Key business developments:

In April 2006, we launched sales of fexofenadine hydrochloride, the AB-rated generic equivalent of Allegra®, despite the fact that litigation was still pending with Sanofi-Aventis, the holder of patents for this branded product. We continue to sell this generic product. This is the only product that we have launched prior to the resolution of outstanding patent litigation. In September 2002, we filed an ANDA for fexofenadine hydrochloride tablets 30 mg, 60 mg and 180 mg with a Paragraph IV certification on all orange book patents. We were granted summary judgment with respect to three patents. Five patents remain in the litigation, which is pending in the United States District Court for the District of New Jersey.

In May 2006, our wholly owned subsidiary, Reddy Pharma Iberia, S.A., acquired marketing authorizations and marketing authorization applications for certain specialty pharmaceutical products, along with the related trademark rights and physical inventories of the products, from Laboratorios Litaphar, S.A. (Litaphar) for a total consideration of Rs.218.9 million (Euro 3.7 million). As a result of this acquisition, we acquired an opportunity to sell those products using their existing brand names through our generics sales and marketing network.

In June 2006, we launched sales of Proscar® and Zocor® as authorized generics pursuant to an agreement we entered into with Merck & Co., Inc. (Merck) in January 2006. This agreement permitted us to distribute and sell generic versions of finasteride and simvastatin (sold by Merck under the brand names Proscar® and Zocor®, respectively) upon the expiration of Merck s patents covering these products, provided that one or more other companies obtain 180-day exclusivity after the expiration of the patents for either product. Subsequent to our entering into this agreement, the patents for both of these products expired and other companies obtained 180-day exclusivity, thereby allowing us to launch the authorized generics products. Under this agreement, during the 180-day exclusivity period, we procured these products from Merck at specified rates and sold them to our customers.

In September 2006, we entered into an agreement with ClinTec International for the joint development of an anti-cancer compound, DRF 1042, belonging to the Topoisomerase inhibitors class of compounds, for use as potential treatment of various types of cancer. We have completed Phase I clinical trials for DRF 1042 in India. Under the terms of the agreement, we and ClinTec International will co-develop DRF 1042, undertaking Phase II and Phase III clinical trials, with the aim of securing U.S. FDA and European Agency for the Evaluation of Medicinal Products (EMEA) approvals. We have granted ClinTec International the commercialization rights for most of Europe,

including major European markets, and we retain the commercialization rights for the rest of the world, including the United States. Upon commercialization of the product, we will receive a royalty on sales by ClinTec

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International in its designated territories and ClinTec International will receive a royalty on sales by us in the United States. In the event either party out-licenses the drug product, the proceeds from such an arrangement will be shared by both the parties in a pre-determined ratio (excluding the proceeds from out-licenses of the drug product to our territories outside the United States). We will also retain the exclusive, worldwide rights to supply commercial quantities of the drug product.

In October 2006, we settled patent litigation with GlaxoSmithKline plc (GlaxoSmithKline) relating to sumatriptan succinate tablets, the generic version of GlaxoSmithKline s Imitrex® tablets. The terms of the settlement, which remain subject to government review, provide that we may exclusively distribute an authorized generic version of sumatriptan succinate tablets (in the 25 mg, 50 mg and 100 mg strengths) in the United States, with an expected launch date late in the fourth quarter of calendar year 2008, ahead of the expiration of the pediatric exclusivity on the applicable patent on February 6, 2009. GlaxoSmithKline s Imitrex® tablets, which are indicated for the acute treatment of migraine attacks in adults, had U.S. sales of U.S.$890 million for the 12 month period ending June 30, 2006 according to Operations Research Group International Medical Statistics (ORG IMS) in its moving annual total report.

In November 2006, we completed a public offering of 14,300,000 American Depositary Shares and raised U.S.$228.8 million (including sales pursuant to the underwriters over allotment option). The final prospectus supplement was filed with the Securities and Exchange Commission on November 17, 2006 and the offering was completed on November 22, 2006.

In December 2006, the U.S. FDA granted final approval for our Abbreviated New Drug Application (ANDA) for Ondansetron Hydrochloride tablets, 4 mg, 8 mg, 16 mg and 24 mg. As the first company to file an ANDA containing a paragraph IV certification for this product, we were awarded a 180-day period of marketing exclusivity. We commenced the shipment of this product in December 2006. Our Ondansetron Hydrochloride tablets are the AB-rated generic equivalent of GlaxoSmithKline s Zofran® tablets, a product indicated for the prevention of nausea and vomiting associated with cancer treatment.

During fiscal 2007, we filed 33 ANDAs, including seven Paragraph IV filings. As of March 31, 2007, we had 69 ANDAs pending at the U.S. FDA. During fiscal 2007, we filed 56 Drug Master Files (DMFs) with the U.S. FDA. We also filed 479 dossiers in various international markets.

As of March 31, 2007, our capital work-in-progress was Rs.2,805.2 million, primarily in India. Our capital work-in-progress is financed entirely through internally generated funds. We are in the process of expanding our existing facilities in our API, generics, integrated product development organization, custom pharmaceutical services and biotechnology businesses.

During fiscal 2006 and fiscal 2007, no third party made any public takeover offers in respect of our shares and we did not make any public offers to take over any other company.

4.B. ***Business overview***

We are an emerging global pharmaceutical company with proven research capabilities. We produce active pharmaceutical ingredients and intermediates and finished dosage forms and biotechnology products and market them globally, with a focus on India, the United States, Europe and Russia. We are vertically integrated and use our active pharmaceutical ingredients and intermediates in our own finished dosage products. We conduct basic research in the areas of cancer, diabetes, cardiovascular disease, inflammation and bacterial infection.

Our total revenues for fiscal 2007 were Rs.65,095.1 million (U.S.$1,510.3 million). We derived 14.1% of these revenues from sales in India, 43.5% from the United States and Canada (North America), 7.3% from Russia and other countries of the former Soviet Union, 22.8% from Europe and 12.3% from other countries. Our net income for fiscal 2007 was Rs.9,326.8 million (U.S.$216.4 million).

OUR STRATEGY

Our vision is to build a discovery-led global pharmaceutical company, with a strong pipeline of generics as well as innovative products. Our strategy to achieve this vision is as follows:

Our core businesses of active pharmaceutical ingredients and intermediates and formulations are well established with a track record of growth and profitability. We are focused on cost competitiveness and improving our position in existing markets and expanding into selected new markets in an effort to continue this growth and profitability.

In our global generics business, we are building a pipeline of products that will help us drive growth in the medium-term in the United States and Europe. We are focusing on key markets in Europe, including Germany, Spain, Italy, France and Poland in order to build a dominant presence in these markets.

We are also actively pursuing external business development opportunities to supplement our internal growth initiatives, including acquisitions and alliances.

We are also focused on positioning our custom pharmaceutical services business as partner of choice for the strategic outsourcing needs of innovator pharmaceutical companies.

In addition, we are focusing our investments on innovation led businesses, including drug discovery with a goal of building our drug discovery pipeline, and specialty pharmaceuticals, which is currently in the research and development phase. These businesses, while being investment intensive and having long lead times, have the potential to provide significant growth as well as sustained revenues and profitability for much longer periods due to patent protected franchises.

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OUR PRINCIPAL AREAS OF OPERATIONS

The following table shows our revenues and percentage of total revenues of our formulations, active pharmaceutical ingredients and intermediates, generics, critical care and biotechnology and drug discovery segments for fiscal 2005, 2006 and 2007, respectively:

	Fiscal Year Ended March 31,							
Segment	**2005**		**2006**		**2007**			
	(Rs.in millions, U.S.$ in thousands)							
Formulations	Rs. 7,822.9	40.1%	Rs. 9,925.9	40.9%	Rs. 12,318.9	18.9%	U.S.$	285,822
Active pharmaceutical ingredients and intermediates	6,944.5	35.6	8,238.0	34.0	11,826,8	18.2		274,404
Generics	3,577.4	18.3	4,055.8	16.7	33,224.2	51.0		770,863
Critical care and biotechnology	527.1	2.7	691.1	2.8	823.9	1.3		19,115
Drug discovery	288.4	1.5			136.8	0.2		3,174
Custom pharmaceutical services	311.6	1.6	1,326.8	5.5	6,599.8	10.1		153,127
Other	47.5	0.2	29.4	0.1	164.8	0.3		3,824
Total revenues	Rs. 19,519.4	100.0%	Rs. 24,267.0	100.0%	Rs. 65,095.1	100.0%	U.S.$	1,510,327

Formulations Segment

Formulations, also referred to as branded finished dosages, are finished pharmaceutical products ready for consumption by the patient. Branded means we package the formulations for sale under our brand name. We sell branded formulations in India, Russia and other emerging markets. Formulations accounted for 18.9% of our revenues in fiscal 2007.

Markets

We export our branded formulations to over 40 countries worldwide. Our major markets in this segment are India, Russia and other countries of the former Soviet Union, Central Eastern Europe, Southeast Asian countries and Latin America. We have also expanded our presence in emerging markets, such as Romania, Albania, South Africa, Venezuela and in the Middle East region. We have progressively increased the number of countries in which we market our formulations by registering our products in various markets around the world. During fiscal 2007, we filed 376 new product dossiers in various countries around the world. Our formulations portfolio includes brands covering several therapeutic segments.

The following table sets forth formulations revenues by geographic area for fiscal 2005, 2006 and 2007, respectively:

	Fiscal Year Ended March 31,						
	2005		**2006**		**2007**		
Country	**Revenues (in millions)**	**% Total[(1)]**	**Revenues (in millions)**	**% Total[(1)]**	**Revenues (in millions)**		**% Total[(1)]**
India	Rs. 4,360.2	55.7%	Rs. 5,525.7	55.7%	Rs. 6,415.0	U.S.$ 148.8	52.1%
Russia	2,107.2	26.9	2,583.2	26.0	3,494.3	81.1	28.4
Ukraine	257.8	3.3	413.4	4.2	557.3	12.9	4.5

Kazakhstan	183.7	2.3	239.4	2.4	319.8	7.4	2.6
Romania	102.6	1.3	192.3	1.9	337.5	7.8	2.7
Belarus	140.1	1.8	156.4	1.6	203.0	4.7	1.6
South Africa	52.1	0.7	142.0	1.4	179.0	4.2	1.5
Vietnam	73.5	0.9	95.0	1.0	57.9	1.3	0.5
Venezuela	96.0	1.2	55.6	0.6	153.1	3.6	1.2
Myanmar	68.1	0.9	81.4	0.8	101.4	2.4	0.8
Others	381.6	4.9	441.7	4.4	500.4	11.6	4.1
Total	Rs. 7,822.9	100.0%	Rs. 9,925.9	100.0%	Rs. 12,318.9	U.S.$ 285.8	100.0%

(1) Refers to our revenues from formulations sales in the applicable country expressed as a percentage of our total revenues from formulations sales throughout the world.

India. Our revenues from sales of formulations in India were 52.1% of our total formulations sales in fiscal 2007. In India, our formulations business focuses mainly on the therapeutic categories of cardiovascular, diabetes management, gastro-intestinal and pain

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management. As of March 31, 2007, we had a total of 130 brands. Our top ten brands together accounted for 51.5% of our formulations revenues in India in fiscal 2007. Our sales of formulations in India grew 16.6% in fiscal 2007 as compared to the industry average growth of 14.3% according to ORG IMS in its March Moving Annual Total report for the 12-month period ending March 2007. According to ORG IMS, as of March 2007, we had 38 brands that were ranked either first or second in terms of sales in India in their respective product categories. According to the Center for Marketing and Advertising Research Consultancy (CMARC) report for the period November 2006 to February 2007, which measures doctors prescriptions, we were the sixth most prescribed company in India.

New product launches during fiscal 2007 accounted for 3.8% of our revenues from sales of formulations in India. Key product launches included Leon, our brand of levofloxacin; Pecef, our brand of cefpodoxime; Becelac Forte, our brand of lactic acid bacillus fortified with vitamins; Doxobid, our brand of and Doxofylline; and Niltan, our brand of a combination of four phytochemicals, arbutin, glabridin, boswellin, and umbelliferin.

The following table provides a summary of our sales in India in our therapeutic categories for fiscal 2005, 2006 and 2007, respectively:

	Fiscal Year Ended March 31,									
	2005			2006			2007			
Therapeutic Category [1]	Number of our Products	Revenues (in millions)	%[2]	Number of our Products	Revenues (in millions)	%[2]	Number of our Products[3]	Revenues		%[2]
Cardiovascular	35	Rs. 937.6	21.5	32	Rs. 1,094.1	19.8	45	Rs. 1222.5	U.S.$ 28.1	19.1
Gastro-intestinal	38	902.00	20.7	33	1037.5	18.8	35	1292.1	29.7	20.1
Pain management	19	713.7	16.4	19	781.6	14.1	20	968.4	22.3	15.1
Diabetes management	21	297.9	6.8	24	458.5	8.3	25	479.9	11.0	7.5
Neutraceuticals	16	243.9	5.6	14	313.8	5.7	13	324.0	7.5	5.1
Anti-infectives	19	324.1	7.4	16	295.9	5.4	21	367.6	8.5	5.7
Dermatology	16	206.5	4.7	18	253.5	4.6	16	285.6	6.6	4.5
Dental	22	177.3	4.1	21	220.4	4	23	235.5	5.4	3.7
Urology	17	131.5	3.0	14	148.7	2.7	16	205.9	4.7	3.2
Respiratory	14	177.5	4.1	11	140.2	2.5	13	172.4	4.0	2.7
Gynecology	7	110.9	2.5	8	124.1	2.2	9	126.7	2.9	2.0
Others	10	137.3	3.1	25	657.4	11.9	38	734.4	16.9	11.4
Total	234	Rs. 4,360.2	100.0%	235	Rs. 5,525.7	100.0%	274	Rs. 6415.0	U.S.$ 147.6	100.0%

(1) The categorization into therapeutic segments is based on current marketing practice and focuses on therapies.

(2) Refers to the therapeutic category s revenues from sales in India expressed as a percentage of our total revenues from sales in all of our therapeutic categories in India.

(3) Products of the same strength sold in different packs have been re-grouped as one product in fiscal 2007.

The following tables summarize the position of our top 10 brands in the Indian market for fiscal 2005, 2006 and 2007, respectively:

Brand	Therapeutic Category	Therapeutic Sub-Category[1]	Rank of our Brand Within Product Category[1]	Market Share of Our Brand Within Product Category[2]	Brand Growth[3]
Nise	Pain management	Non-steroidal anti-inflammatory	1	28%	25%
Omez	Gastro-intestinal	Anti-ulcerant	1	49.3	13.4
Stamlo	Cardiovascular	Anti-hypertensive	1	23.6	4.1
Stamlo beta	Cardiovascular	Anti-hypertensive	2	16.4	7.9
Enam	Cardiovascular	Anti-hypertensive	2	24.8	(2.3)
Atocor	Cardiovascular	Lipid lowering agent	4	8.8	15.3
Razo	Gastro-intestinal	Anti-ulcerant	1	11.7	41.9
Reclimet	Diabetes management	Sulphonylurea anti-diabetic	2	13.0	49.7
Clamp	Anti-infectives	Anti-infectives	4	8.4	15.6
Mintop	Dermatology	Alopecia	1	62.2	8

(1) Therapeutic sub-categories are the specific groups within each therapeutic category and product

categories are the compound groups within each therapeutic sub-category. Source: Derived from Operations Research Group March 2007.

(2) Refers to our brand s revenues from sales in India expressed as a percentage of total revenues from sales in respective product categories in India. Source: Derived from ORG IMS in its Moving Annual Total report for the 12 month period ending March 2007.

(3) Revenue growth determined based on retail sales over the corresponding 12-month period for the previous year. Source: Derived from ORG IMS in its Moving Annual Total report for the 12 month period ending March 2007.

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Brand	Fiscal Year Ended March 31, 2005	2006	2007		
			(in millions)		%Total[1]
Nise	Rs. 537.9	Rs. 736.0	Rs. 872.5	U.S.$ 20.1	13.5%
Omez	528.1	690.8	829.2	19.1	12.9
Stamlo	298.2	339.7	369.8	8.5	5.8
Stamlo Beta	186.7	262.8	267.3	6.1	4.2
Razo	65.2	127.3	211.0	4.9	3.3
Atocor	115.8	167.2	188.8	4.3	2.9
Enam	162.1	172.7	174.1	4.0	2.7
Reclimet	79.1	123.7	137.9	3.2	2.2
Clamp	100.6	118.3	134.7	3.1	2.1
Mintop	98.4	109.1	118.7	2.7	1.9
Total	Rs. 2,172.1	Rs. 2,847.6	Rs. 3304.0	U.S.$ 76.0	51.5

(1) Refers to the brand s revenues from sales in India expressed as a percentage of our total revenues from sales in all of our therapeutic categories in India.

Russia. Russia is our largest international market in our formulations business and our sales of formulations in this market accounted for 28.4% of our revenues in the formulations segment in fiscal 2007. Pharmexpert, a market research firm, ranked us 15th in sales in Russia with a market share of 1.31% as of March 2007 in its moving annual total report for first quarter 2007 (the Pharmexpert MAT Q1 2007 Report). Pharmexpert also reported that the market growth during fiscal 2007 was 24%. All of the companies ranked ahead of us by Pharmexpert were either multinational corporations or of European origin. Accordingly, we were the top ranked Indian pharmaceutical company in Russia.

The following table provides a summary of our revenues in Russia by therapeutic category for fiscal 2005, 2006 and 2007, respectively:

Therapeutic Category	Fiscal Year Ended March 31, 2005 Number of Products	Revenues (in millions)	% Total[1]	2006 Number of Products	Revenues (in millions)	% Total[1]	2007 Number of Products	Revenues (in millions)		% Total[1]
Pain management	9	Rs. 660.3	31.3%	9	Rs. 929.6	36.0%	9	Rs. 1324.8	U.S.$ 30.5	37.9%
Anti-infectives	7	505.1	24.0	6	546.5	21.2	6	602.2	13.9	17.2

Gastro-intestinal	2	493	23.4	3	608.6	23.6	6	841.8	19.4	24.1
Cardiovascular	4	306.2	14.5	4	288.9	11.2	4	266.1	6.1	7.6
Dermatology	4	96.4	4.6	4	142.4	5.5	4	192.2	4.4	5.5
Others	7	46.2	2.2	6	67.1	2.6	10	267.3	6.8	7.7
Total	33	Rs. 2,107.2	100.0%	32	Rs. 2,583.1	100.0%	39	Rs. 3,494.3	81.1	100.0%

(1) Refers to the therapeutic category s revenues from sales in Russia expressed as a percentage of our total revenues from sales in all of our therapeutic categories in Russia.

The following table provides a summary of our principal products in the Russian market for fiscal 2005, 2006 and 2007, respectively:

		Fiscal Year Ended March 31,							
		2005		2006		2007			
Brand	Therapeutic Category	Revenues (in millions)	%Total(1)	Revenues (in millions)	%Total(1)	Revenues (in millions)		%Total(1)	
Omez	Gastro-intestinal	Rs. 488.7	23.2%	Rs. 603.5	23.4%	Rs. 819.7	U.S.$ 18.9	23.5%	
Ketorol	Pain management	339.3	16.1%	511.9	19.8%	633.0	14.6	18.1%	
Nise	Pain management	296.8	14.1%	379.2	14.7%	665.3	15.3	19.0%	
Ciprolet	Anti-infectives	450.2	21.4%	484.7	18.8%	543.9	12.5	15.6%	
Total		Rs. 1,575.0	74.7%	Rs. 1,979.3	76.6%	Rs. 2,661.9	U.S.$ 61.2	76.2%	

(1) Refers to the brand s revenues from sales in Russia expressed as a percentage of our total revenues from all formulation sales in Russia.

Our top four brands, Omez, Ciprolet, Ketorol and Nise, accounted for 76.2% of our formulations revenues in Russia in fiscal 2007. Omez, our anti-ulcerant product and Ciprolet, our product in the anti-infective segment, are ranked as the 47th and 83rd best selling formulation brands, respectively, in the Russian market as of March 2007 by

Pharmexpert in its MAT Q1 2007 Report. Nise has also entered Pharmexpert s top 100 rankings at number 79 and has become the top selling non-steroidal anti-inflammatory drug on the Russian pharmaceutical market for the year ended December 2006 according to Pharmexpert MAT Q1 2007 Report.

Our strategy in Russia is to focus on the therapeutic areas of gastro-intestinal, pain management, anti-infectives and cardiovascular. Our focus is on building brand leaders in these therapeutic segments. Omez, Ciprolet, Enam and Nise continued to be brand leaders in their respective categories, as reported by the Pharmexpert MAT Q1 2007 Report.

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Growth during the year was driven by marketing initiatives such as targeting the hospital segment, greater penetration in the key cities of Moscow and St. Petersburg, marketing campaigns for key products and an over the counter (OTC), initiative for certain brands.

During fiscal 2007, we further expanded our Russian sales force. The hospital division has 26 hospital specialists and nine key account managers, focused on expanding our present network of relationships with hospitals and institutes. The OTC division has 39 medical representatives, whose focus is to establish a network of relationships with OTC distributors in preparation for future OTC product launches

Other Markets. We have operations in former Soviet Union countries other than Russia, including Ukraine, Kazakhstan, Belarus and Uzbekistan. We also have operations in other emerging markets, such as Venezuela, Vietnam, South Africa, Romania and Myanmar. Our export of formulations to these countries accounted for 15.4% of the revenues in our formulations segment in fiscal 2007.

In South Africa, we market through our partially owned subsidiary, Dr. Reddy s Laboratories (Proprietary) Limited (DRLPL). As of March 31, 2007, we held a 60% equity interest in DRLPL. We currently market eight products through DRLPL in South Africa and have 22 products pending registration. During fiscal 2007, we launched sales of amlodipine maleate tablets, terbinafine tablets, fluoxetine capsules, cypreterone and ethynyl estradiol tablets and allerway capsules in South Africa through an in-licensing arrangement.

In China, we market through our equity investee, Kunshan Rotam Reddy Pharmaceuticals Co. Limited (KRRP or Reddy Kunshan). As of March 31, 2007, we held a 51.33% equity interest in KRRP. We currently market ten products through KRRP in China and have three products pending registration. During fiscal 2007, KRRP sold one product license. Also, we opened a representative office in China during fiscal 2006 to expand our presence there. We have applied for registration of six products from our representative office, which applications are pending approval.

Sales, marketing and distribution network

India. We generate demand for our products by promoting them to doctors who prescribe them, and meeting with pharmacists to ensure that the pharmacists stock our brands. Our focus on brand building is thus primarily driven through efforts to build relationships with the medical community. While we do not sell directly to doctors or pharmacists, our approximately 1,695 field personnel frequently visit doctors and pharmacists throughout the country to promote our products. In addition, we sponsor medical conferences in different parts of the country and conduct seminars for doctors. During fiscal 2007, we increased our sales personnel in India by 69.

We sell our formulations primarily through clearing and forwarding agents to approximately 2,000 stockists who decide which brands to buy based on demand. The stockists pay for our products in an agreed credit period and in turn sell these products to retailers. Our clearing and forwarding agents are responsible for transporting our products to the stockists and ensuring that the stockists maintain adequate supplies of our products. We pay our clearing and forwarding agents on a commission basis. We have insurance policies that cover our products during shipment and storage at clearing and forwarding locations.

Russia. In Russia, we sell our formulations to some of the principal national distributors directly as well as through our wholly-owned subsidiary located in Russia, OOO Dr. Reddy s Laboratories, Russia. Our sales and marketing efforts are driven by a team of 195 marketing representatives, 11 regional managers, 4 zone managers and 9 key account managers to promote our products to doctors in 48 cities in Russia. During fiscal 2007, we increased our sales personnel in Russia by 78.

In the Russian market, credit is generally extended only to customers after they have established a satisfactory history of payment with us. The credit ratings of these customers are based on turnover, payment record and the number of the customers branches or pharmacies and are reviewed on a periodic basis. There were no material changes in the credit terms which we extended to our major customers during fiscal 2007.

Other Markets. Our other key focus markets are South Africa, China, Kazakhstan, Uzbekistan, Ukraine, Belarus, Vietnam, Romania, Venezuela and Sri Lanka, where we have our own sales personnel to promote our products. In South Africa, we sell our products to wholesale distributors, dispensing doctors and retail pharmacies. In China, where we market through KRRP, we have 88 (as of March 31, 2007) marketing representatives covering hospitals. In several of these markets, we market and distribute through local agents. We also have representative offices in several of these countries.

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Manufacturing and Raw Materials

We have four facilities for the manufacture of formulation products, all of which are situated in India, as of March 31, 2007. We manufacture most of our finished products at these facilities and also use third-party manufacturing facilities as we determine necessary. For each of our products, we endeavor to identify alternate suppliers of our products and the processes applicable to our products. The main difference between active pharmaceutical ingredients as compared to formulations and generics is the form in which they are produced and the way they are packaged. Active pharmaceutical ingredients are manufactured and distributed in bulk. In formulations and generics, these bulk ingredients are converted into finished dosages by adding other ingredients, called excipients, and packaged into individual doses that are ready for consumption by the patient. In fiscal 2007, our active pharmaceutical ingredients and intermediates business provided 59.9% of the active pharmaceutical ingredients and intermediates requirements of our formulations business, with the balance coming from various other suppliers.

We also established a facility to manufacture oral solid and injectable forms of cyto-toxic and hormonal formulations at a Special Economic Zone located in Visakhapatnam, India. After commercialization of those products, the facility will cater to the requirements of our key markets for those products.

Our manufacture of formulations is subject to strict quality and contamination controls throughout the manufacturing process. Each production line consists of a series of rooms through which the product passes at different stages of its conversion to a finished dosage. In our facilities, we manufacture formulations in various dosage forms including tablets, capsules, injections and liquids. These dosage forms are then packaged and quarantined to be tested for quality and contamination. The Ministries of Health of Brazil, Latvia and Romania have inspected some of our manufacturing plants. One of our facilities also has the approval of the U.K. Medicines and Health Care Products Regulatory Agency (MHRA). In April 2006, we completed the construction of a new facility at Baddi in the state of Himachal Pradesh, India. We are manufacturing our key brands at this facility in Baddi to take advantage of certain financial benefits, which include exemption from income tax and excise duty for a specified period, offered by the government of India to encourage industrial growth in the state of Himachal Pradesh.

Competition

We compete with different companies in different countries, depending upon therapeutic and product categories, and within each category upon dosage strengths and drug delivery. On the basis of sales, we are the seventh largest pharmaceutical seller in India, with a market share of 2.4% according to the ORG IMS March Moving Annual Total report for the 12-month period ending March 2007. Of the top ten participants in the Indian formulations market, three are multinational corporations and the rest are Indian corporations.

We believe growth opportunities in India exist and the Indian pharmaceutical business environment underwent considerable changes in fiscal 2006. Some of the most significant changes in the industry are as follows:

Introduction of the product patent regime, effective as of January 1, 2005;

Implementation of the Value Added Tax (VAT) system, effective as of April 1, 2005;

Introduction of the Maximum Retail Price (MRP)-based excise duty structure for the pharmaceutical industry;

Higher investments by Indian companies in research and development, as well as an increase in the number of new product launches by Indian companies; and

Improvement in sales of multinational corporations and increasing interest of global multinationals in India.

Our formulation segment s principal competitors in the Indian market are Cipla Limited, Glaxo SmithKline Pharmaceuticals Limited, Ranbaxy Laboratories Limited, Nicholas Piramal India Limited, Sun Pharmaceuticals Industries Limited and Zydus-Cadila.

Our formulation segment s principal competitors in the Russian market include Berlin Chemi AG, Gedeon Richter Ltd., Krka, dd, Novo mesto, Pliva dd, Nycomed A/S and Egis Pharmaceuticals Ltd.

In our export markets, we compete with local companies, multinational corporations and companies from other emerging markets. In Russia and in most of our export markets, we believe our products occupy a niche position

between the less expensive local products and the more expensive products of the multinational corporations.

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Government regulations

All pharmaceutical companies that manufacture and market products in India are subject to various national and state laws and regulations, which principally include the Drugs and Cosmetics Act, 1940, the Drugs (Prices Control) Order, 1995 (DPCO), various environmental laws, labor laws and other government statutes and regulations. These regulations govern the testing, manufacturing, packaging, labeling, storing, record-keeping, safety, approval, advertising, promotion, sale and distribution of pharmaceutical products.

In India, manufacturing licenses for drugs and pharmaceuticals are generally issued by state drug authorities. Under the Drugs and Cosmetics Act, 1940, the state drug administrations are empowered to issue manufacturing licenses for drugs if they are approved for marketing in India by the Drug Controller General of India (DCGI). Prior to granting licenses for any new drugs or combinations of new drugs, DCGI clearance has to be obtained in accordance with the Drugs and Cosmetics Act, 1940.

Pursuant to the amendments in May 2005 to the Schedule Y of the Drugs and Cosmetics Act, 1940, manufacturers of finished dosages are required to submit additional technical data to the DCGI in order to obtain a no-objection certificate for conducting clinical trials as well as to manufacture new drugs for marketing.

All pharmaceutical manufacturers that sell products in any country are subject to regulations issued by the ministry of health (MoH) of the respective country. These regulations govern or influence the testing, manufacturing, packaging, labeling, storing, record-keeping, safety, approval, advertising, promotion, sale and distribution of products.

Our facilities and products are periodically inspected by various regulatory authorities such as the U.K. MHRA, the South African Medicines Control Council, the Brazilian National Agency of Sanitary Surveillance (also known as ANVISA), the Romanian National Medicines Agency, and the World Health Organization, all of which have extensive enforcement powers over the activities of pharmaceutical manufacturers operating within their jurisdiction.

MoH approval of an application is required before a generic equivalent of an existing or referenced brand drug can be marketed. When processing a generics application, the MoH waives the requirement of conducting complete clinical studies, although it normally requires bioavailability and/or bioequivalence studies. Bioavailability indicates the rate and extent of absorption and levels of concentration of a drug product in the blood stream needed to produce a therapeutic effect. Bioequivalence compares the bioavailability of one drug product with another, and when established, indicates that the rate of absorption and levels of concentration of the active drug substance in the body are the equivalent for the generic drug and the previously approved drug. A generic application may be submitted for a drug on the basis that it is the equivalent of a previously approved drug. Before approving a generic product, the MoH also requires that our procedures and operations conform to Current Good Manufacturing Practice (cGMP) regulations, relating to good manufacturing practices as defined by various countries. We must follow the cGMP regulations at all times during the manufacture of our products. We continue to spend significant time, money and effort in the areas of production and quality testing to help ensure full compliance with cGMP regulations.

The timing of final MoH approval of a generic application depends on various factors, including patent expiration dates, sufficiency of data and regulatory approvals.

Under the present drug policy of the government of India, certain drugs have been specified under the DPCO as subject to price control. The government of India established the National Pharmaceutical Pricing Authority (NPPA) to control pharmaceutical prices. Under the DPCO, the NPPA has the authority to fix the maximum selling price for specified products. At present, 74 drugs and their formulations are categorized as specified products under the DPCO. A limited number of our formulation products fall in this category. Adverse changes in the DPCO list or in the span of price control can affect pricing, and hence, our Indian revenues.

On March 22, 2005, the government of India passed the Patents (Amendment) Bill 2005 (the Amendment), introducing a product patent regime for food, chemicals and pharmaceuticals in India. The Amendment specifically provides that new medicines (patentability of which is not specifically excluded) for which a patent has been applied for in India on or after January 1, 1995 and for which a patent is granted cannot be manufactured or sold in India by other than the patent holder and its assignees and licensees. This will result in a reduction of the new product introductions in India, as well as other countries where similar legislation has been introduced, for all Indian pharmaceutical companies engaged in the development and marketing of generic finished dosages and APIs.

Processes for the manufacture of APIs and formulations were patentable in India even prior to the Amendment, so no additional impact is anticipated from patenting of such processes.

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Active Pharmaceutical Ingredients and Intermediates Segment

Our active pharmaceutical ingredients and intermediates business contributed 18.2% of our total revenues for fiscal 2007. Active pharmaceutical ingredients are the principal ingredients for finished dosages and are also known as bulk actives or bulk drugs. Active pharmaceutical ingredients become formulations when the dosage is prepared for human consumption in the form of a tablet, capsule or liquid using additional inactive ingredients. Intermediates are the compounds from which active pharmaceutical ingredients are prepared. We produce and market more than 100 different active pharmaceutical ingredients and intermediates in several markets. We export active pharmaceutical ingredients to emerging as well as developed markets covering 78 countries. Our principal markets in this business segment include North America and Europe, which together contributed 34.9% of this segment s revenues. Our active pharmaceutical ingredients and intermediates business is operated independently from our formulations and generics businesses and, in addition to supplying API to our formulations and generics businesses, we sell APIs to third parties for use in creating generic products, subject to any patent rights of other third parties. Our active pharmaceutical ingredients business also manufactures and supplies all of the API required in our custom pharmaceutical services business. The research and development group within the active pharmaceutical ingredients and intermediates segment contributes to our business by creating intellectual property (principally with respect to novel and non-infringing manufacturing processes and intermediates), providing research intended to reduce the cost of production of our products and developing approximately 15-20 new products every year.

The following table sets forth active pharmaceutical ingredients and intermediates revenues by geographic area for fiscal 2005, 2006 and 2007, respectively:

	Fiscal Year Ended March 31,						
	2005		2006		2007		
	Revenues (in millions) Rs.	% Total[(1)]	Revenues (in millions) Rs.	% Total[(1)]	Revenues (in millions) Rs.	U.S.$	% Total[(1)]
Emerging markets							
India	1,972.1	28.4%	2,296.4	27.8%	2,075.1	48.1	17.5%
Bangladesh	127.4	1.8%	265.7	3.2%	155.0	3.6	1.3%
Other countries	1,841.8	26.5%	2,558.9	31.1%	5,397.8	125.3	45.6%
Total emerging markets	3,941.3	56.8%	5,121.0	62.1%	7,627.9	177.0	64.4%
Developed markets							
North America	1,849.0	26.6%	1,655.0	20.1%	2,029.6	47.1	17.2%
Europe	1,091.1	15.7%	1,420.9	17.3%	2,089.4	48.5	17.7%
Japan	63.1	0.9%	41.1	0.5%	79.9	1.8	0.7%
Total developed markets	3,003.2	43.2%	3,117.0	37.9%	4,198.9	97.4	35.6%
Total	6,944.5	100.0%	8,238.0	100.0%	11,826.8	274.4	100.0%

(1) Refers to our revenues from API sales in the applicable country expressed as a percentage of our total revenues from API sales throughout the world.

The following table sets forth the sales of our key active pharmaceutical ingredients and intermediates for fiscal 2005, 2006 and 2007, respectively:

			Fiscal Year Ended March 31,					
			2005		2006		2007	
			Revenues (in millions)	% Total(1)	Revenues	% Total(1)	Revenues U.S.$	% Total(1)
Product	**Category**	**Sub-Category**						
Sertraline hydrochloride	Cardiovascular	Anti-hypertensive	138.2	2.0%	494.1	6.0%	2,461.5	57.1	20.8%
Rabeprazole sodium	Gastrointestinal	Anti-ulcerative	7.4	0.1%	18.4	0.2%	875.2	20.3	7.4%
Ramipril	Cardiovascular	Anti-hypertensive	783.4	11.3%	642.5	7.8%	760.7	17.6	6.4%
Ciprofloxacin Hcl	Anti-infective	Anti-bacterial	619.1	8.9%	778.5	9.5%	739.6	17.2	6.3%
Finasteride	Prostatic Inhibition	Benign Prostatic Hyperplasia	58.4	0.8%	98.3	1.2%	580.8	13.5	4.9%
Ranitidine HCl Form 2	Gastro-intestinal	Anti-ulcerant	734.3	10.6%	552.8	6.7%	523.5	12.1	4.4%
Naproxen sodium	Pain management	Anti-inflammatory	470.0	6.8%	380.4	4.6%	521.2	12.1	4.4%
Terbinafine HCl	Anti-infective	Anti-fungal	194.5	2.8%	537.2	6.5%	483.9	11.2	4.1%
Naproxen	Pain management	Anti-inflammatory	229.6	3.3%	375.0	4.6%	408.0	9.5	3.4%
Clopidogrel	Cardiovascular	Anti-platelet agent	79.6	1.1%	139.9	1.7%	384.2	8.9	3.2%
Ibuprofen	Pain management	Analgesic	460.5	6.6%	502.3	6.1%	328.9	7.6	2.8%
Montelukast	Respiratory	Anti-allergic	52.6	0.8%	241.1	2.9%	285.2	6.6	2.4%
Losartan potassium	Cardiovascular	Anti-hypertensive	180.5	2.6%	172.7	2.1%	234.4	5.4	2.0%
Nizatidine	Gastro-intestinal	Anti-ulcerant	216.8	3.1%	160.9	2.0%	223.6	5.2	1.9%
Atorvastatin	Cardiovascular	Lipid-lowering agent	252.5	3.6%	321.1	3.9%	161.9	3.8	1.4%

(1) Refers to our revenues from key API sales expressed as a percentage of our total API revenues.

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Sales, Marketing and Distribution

Emerging Markets. India is an important emerging market, contributing 17.5% to the segment s revenues in fiscal 2007. In India, we market our active pharmaceutical ingredients to Indian and multinational companies who are also our competitors in our formulations segment.

In India, our top six products are ciprofloxacin, ranitidine, losartan potassium, sparfloxacin, ramipril and atorvastatin. The market in India is highly competitive with severe pricing pressure and competition from cheaper Chinese imports in several products.

In India, our sales team works closely with our sales agents to market our products. We market our products through these sales agents, commonly referred to as indenting agents, with a focus on regional sales and marketing. The sales are made directly from the factory and to a limited extent through clearing and forwarding agents. Distribution through clearing and forwarding agents is done to give better service to the customer.

Our sales to other emerging markets were Rs.5,552.8 million for fiscal 2007. Our other key emerging markets include Israel, Turkey, South Korea, Mexico, Brazil, Syria, Argentina, Egypt, Iran, Saudi Arabia, China, South Africa, Indonesia, Jordan and Thailand. While we work through our agents in these markets, our zonal marketing managers also interact directly with our key customers in order to service their requirements. Our strategy is to build relationships with top customers in each of these markets and partner with them in product launches by providing timely technical and analytical support.

Developed Markets. Our principal markets are North America and Europe. In the United States and Europe, over the next five years, a large number of products are expected to lose patent protection, providing growth opportunities for our active pharmaceutical ingredients and intermediates business. We have been marketing APIs in the United States for over a decade. We market through our subsidiaries in the United States and Europe. These subsidiaries are engaged in all aspects of marketing activity and support our customers pursuit of regulatory approval for their products focusing on building long-term relationships with the customers.

As of March 31, 2007, we had 104 DMFs on file in the United States. As of March 31, 2007, we had filed 51 DMFs in Europe and had 20 certificates of suitability granted by European authorities. For most of these, we are either already supplying commercial quantities or development quantities of API to various generic formulators.

Manufacturing and Raw Materials

We have seven facilities for the manufacture of our APIs. Six of these facilities have been inspected by the U.S. FDA and follow cGMP. All of these facilities are situated in the state of Andhra Pradesh, India. Six of these facilities have ISO 9001 certification, which is valid until December 5, 2009, at which time we will be reinspected. With over 650 reactors of different sizes offering 2.1 million litres of reaction volume annually, we have the flexibility to produce quantities that range from a few kilograms to several metric tons. The manufacturing process consumes a wide variety of raw materials that we obtain from sources that comply with the requirements of regulatory authorities in the markets to which we supply our products. We procure raw materials on the basis of our requirement planning cycles. We utilize a broad base of suppliers in order to minimize risk arising from dependence on a single supplier. Where possible, we have also entered into annual quantity and price contracts to reduce possible supply risks and minimize costs. Our formulations and generics businesses source approximately 59.9% and 65.2%, respectively, of their API purchases from our active pharmaceutical ingredients and intermediates segment. We also outsource the manufacturing of some of our APIs to third-party manufacturers. The active pharmaceutical ingredients and intermediates segment also sources several APIs from third party suppliers for the emerging markets to optimally utilize the in-house manufacturing capacities for the developed markets, which are more profitable relative to the emerging markets. During fiscal 2007, 5.8% of our total revenues resulted from sale of APIs procured from third-party suppliers. We maintain stringent quality controls when procuring materials from third-party suppliers.

Competition

The global API market can broadly be divided into regulated and less regulated markets. The less regulated markets offer low entry barriers in terms of regulatory requirements and intellectual property rights. The regulated markets, like the United States and Europe, have high entry barriers in terms of intellectual property rights and regulatory requirements, including facility approvals. As a result, there is a premium for quality and regulatory compliance along with relatively greater stability for both volumes and prices.

During fiscal 2007, the competitive environment for the API industry underwent significant changes. These changes included increasing consolidation in the global generics industry and vertical integration of some key generic pharmaceutical companies.

As an API supplier, we compete with a number of manufacturers within and outside India, which vary in size. Our main competitors in this segment are Hetero Drugs Limited, Divi s Laboratories Limited, Shasun Chemicals and Drugs Limited, Aurobindo

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Pharma Limited, Ranbaxy Laboratories Limited, Cipla Limited, Matrix Laboratories Limited , Sun Pharmaceutical Industries Limited and MSN Laboratories Limited, all based in India. In addition, we experience competition from European and Chinese manufacturers, as well as from Teva Pharmaceuticals Industries Limited, based in Israel.

Government regulations

All pharmaceutical companies that manufacture and market products in India are subject to various national and state laws and regulations, which principally include the Drugs and Cosmetics Act, 1940, the Drugs (Prices Control) Order, 1995, various environmental laws, labor laws and other government statutes and regulations. These regulations govern the testing, manufacturing, packaging, labeling, storing, record-keeping, safety, approval, advertising, promotion, sale and distribution of pharmaceutical products.

In India, manufacturing licenses for drugs and pharmaceuticals are generally issued by state drug authorities. Under the Drugs and Cosmetics Act, 1940, the state drug administrations are empowered to issue manufacturing licenses for drugs if they are approved for marketing in India by the DCGI. Prior to granting licenses for any new drugs or combinations of new drugs, the DCGI clearance has to be obtained in accordance with the Drugs and Cosmetics Act, 1940.

Our active pharmaceutical ingredients and intermediates segment is subject to a number of government regulations with respect to pricing and patents as discussed above under our formulations segment.

We submit a DMF for active pharmaceutical ingredients to be commercialized in the United States. Any drug product for which an Abbreviated New Drug Application (ANDA) is being filed must have a DMF in place with respect to a particular supplier supplying the underlying active pharmaceutical ingredient. The manufacturing facilities are inspected by the U.S. FDA to assess cGMP compliance. The manufacturing facilities and production procedures utilized at the manufacturing facilities must meet U.S. FDA standards before products may be exported to the United States. Six of our manufacturing facilities have been inspected by the U.S. FDA and found Acceptable. For European markets, we submit a European DMF and, where applicable, obtain a certificate of suitability from the European Directorate for the Quality of Medicines.

Generics Segment

Generic drugs are the chemical and therapeutic equivalents of reference brand drugs, typically sold under their generic chemical names at prices below those of their brand drug equivalents. Generic drugs are finished pharmaceutical products ready for consumption by the patient. Our generic products are marketed principally in North America and Europe. These drugs are required to meet governmental standards that are similar to those applicable to their brand-name equivalents and must receive regulatory approval prior to their sale in any given country.

Our generics operations started in the second half of fiscal 2001. This segment accounted for 51.0% of our total revenues for fiscal 2007, contributing Rs.33,224.2 million. In fiscal 2007, revenues in this segment were Rs.9,601.0 million from sales in Europe, Rs.23,619.4 million from sales in North America and Rs.3.8 million from sales in the rest of the world.

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The following table sets forth the sales of our principal generics finished dosages for fiscal 2005, 2006 and 2007, respectively:

			Fiscal Year Ended March 31,						
			2005		2006		2007		
Region / Product	Therapeutic Category	Therapeutic Sub-Category	Revenues (in millions)	% Total[1]	Revenues (in millions)	% Total[1]	Revenues (in millions)	Revenues (in millions)	% Total[1][2]
North America									
Fluoxetine capsules	Central nervous system	Anti-psychotic	Rs.928.5	26.0	Rs.373.8	9.2	Rs.249.8	U.S. $5.8	0.8%
Ibuprofen tablets	Pain management	Analgesic	198.7	5.6	235.1	5.8	86.1	2.0	0.3%
Ranitidine tablets	Gastro-intestinal	Anti-ulcerant	194.0	5.4	225.9	5.6	206.0	4.8	0.6%
Famotidine tablets	Gastro-intestinal	Anti-ulcerant	141.1	3.9	156.1	3.9	172.1	4.0	0.5%
Citalopram tablets	Central nervous system	Anti-psychotic	201.6	5.6	143.4	3.5	289.9	6.7	0.9%
Ciproflaxacin tablets	Anti-infective	Anti-bacterial	166.1	4.6	135.3	3.3	259.5	6.0	0.8%
Tizanidine tablets	Spasticity	Muscle relaxant	206.2	5.8	62.8	1.6	108.7	2.5	0.3%
Ranitidine capsules	Alimentary Tract	Stomach ulcer	84.9	2.4	27.9	0.7	36.1	0.8	0.1%
Simvastatin AG	Cardiovascular	Cholestrol regulator					13,899.4	322.5	41.8%
Ondansetron	Gastro-intestinal	Antiemetic antinausient solids					2,890.1	67.1	8.7%
Fexofinadine	Respiratory	Antihistamine Systemic					2,429.3	56.4	7.3%
Finasteride AG	Urology	Benign Prostate Hyperlesian					1,913.6	44.4	5.8%
Pravastatin	Cardiovascular	Statins					158.2	3.7	0.5%
Simvastatin	Cardiovascular	Cholestrol regulator					164.3	3.8	0.5%
Total			**2,121.1**	**59.3**	**1,360.3**	**33.6**	**22,863.1**	**525.1**	**68.1%**
Europe									
Simvastatin	Cardiovascular	Cholestrol regulator			119.0	2.9	1,370.62	30.29	4.1%
Omeprazole	Gastro-Intestinal	Anti-Ulcerant	434.1	12.1	786.3	19.4	976.57	21.58	2.9%
Alendronate	Women's health	Bone calcium regulator			21.5	0.5	676.23	14.94	2.0%
Amlodipine	Cardiovascular	Anti-Hypertensive	219.9	6.1	371.5	9.2	525.05	11.6	1.6%
Enalapril & HCT	Cardiovascular	Anti-Hypertensive			23.1	0.6	265.34	5.86	0.8%
Total			**Rs.654.0**	**18.2**	**Rs.1,321.4**	**32.6**	**Rs.3,813.81**	**U.S.$ 84.27**	**11.4%**

(1) Refers to our revenues from generics sales in the applicable region expressed as a percentage of our total revenues from generics sales throughout the world.

(2) Sales for betapharm, our recently acquired subsidiary in Germany, have been included from the date of its acquisition in March 2006.

Generic drugs may be manufactured and marketed only if relevant patents on their brand name equivalents and any additional government-mandated market exclusivity periods have expired, been challenged and invalidated, or otherwise validly circumvented.

Generic pharmaceutical sales have increased significantly in recent years, due in part to an increased awareness and acceptance among consumers, physicians and pharmacists that generic drugs are the equivalent of brand-name drugs. Among the factors contributing to this increased awareness are the passage of legislation permitting or encouraging substitution and the publication by regulatory authorities of lists of equivalent drugs, which provide physicians and pharmacists with generic drug alternatives. In addition, various government agencies and many private managed care or insurance programs encourage the substitution of generic drugs for brand-name pharmaceuticals as a cost-savings measure in the purchase of, or reimbursement for, prescription drugs. We believe that these factors, together with the large volume of branded products losing patent protection over the coming years, should lead to continued expansion of the generic pharmaceuticals market as a whole. We intend to capitalize on the opportunities resulting from this expansion of the market by leveraging our product development capabilities, manufacturing capacities inspected by various international regulatory agencies and access to our own APIs, which offer significant supply chain efficiencies.

Through the coordinated efforts of our teams in the United States, Europe and India, we constantly seek to expand our pipeline of generic products. As of March 31, 2007, our U.S. generics pipeline included 69 ANDA applications pending approval at the U.S. FDA. As of March 31, 2007, we had received 37 product approvals from the U.S. FDA and 10 tentative product approvals (tentative approvals do not allow us to market the generic product and are not converted to final approvals until all patent or exclusivity issues for the reference listed drug product have been resolved). As of March 31, 2007, we had received two product approvals in Europe, four product approvals in South Africa, two product approvals in Canada and one product approval in each of Australia and New Zealand. Our product launch plans in Germany will depend on the marketing capacities which we build up and the marketing authorizations which we obtain. As of March 31, 2007, we had obtained 27 marketing authorizations in Germany for products in varying dosage strengths.

During fiscal 2005, we entered into an agreement with I-VEN Pharma Capital Limited (I-VEN) for the joint development and commercialization of generic drug products for the U.S. markets. The agreement gives I-VEN the

right to fund up to fifty percent of

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the project costs (development, registration and legal costs) related to these products and the related U.S. Abbreviated New Drug Applications (ANDA) filed or to be filed in 2004-05 and 2005-06, subject to a maximum funding right of U.S.$56.0 million. During fiscal 2007, we signed an amendment agreement with I-VEN to reflect a change in the product portfolio and the royalty rate.

Sales, Marketing and Distribution Network

North America. Dr. Reddy s Laboratories, Inc., our wholly-owned subsidiary in the United States, is engaged in the marketing of our generic products in North America. In early 2003, we commenced sales of generic products under our own label. We have our own sales and marketing team to market these generic products. During fiscal 2007, we launched ondansetron tablets (under 180 days exclusivity), fexofenadine tablets, nizatidine tablets, pravastatin tablets, meloxicam tablets, simvastatin tablets, finasteride tablets, ranitidine tablets (Rx), famotidine 20mg OTC and ibuprofen/pseudoephedrine OTC. Key account representatives for generic products call on purchasing agents for chain drug stores, drug wholesalers, health maintenance organizations and pharmacy buying groups.

In January 2006, we entered into an agreement with Merck & Co., Inc. allowing us to distribute and sell generic versions of finasteride and simvastatin (sold by Merck under the brand names Proscar® and Zocor®), upon the expiration of Merck s patents covered by these products, provided that some other company obtains 180-day exclusivity after the expiration of the patents for either product. Subsequently, the patents for both of these products expired and other companies obtained 180-day exclusivity. Accordingly, we launched sales of these products on June 19, 2006 and June 23, 2006, respectively.

On March 13, 2006, we acquired trademark rights to three off-patent products, along with all the physical inventories of the products, from PDL Biopharma, Inc (PDL) for a total consideration of Rs.122.7 million. PDL is a company focused on the development and commercialization of novel therapies for treatment of inflammation and autoimmune diseases, acute cardiac conditions and cancer. As a result of the acquisition, we acquired an opportunity to sell these products using their existing brand names through our generics sales and marketing network.

In 2001, we entered into a profit sharing marketing alliance with Par Pharmaceuticals, Inc. to market certain prescription generic formulations, none of which are over-the-counter products. We currently market six generic products through Par Pharmaceuticals, Inc.

We market famotidine 10 mg tablets and ranitidine 75 mg tablets through Leiner Health Products, LLC (Leiner). In 2002, we entered into a 15-year exclusive agreement with Leiner to market additional over-the-counter products in the United States pursuant to which we launched our first product, ibuprofen/pseudoephedrine, during fiscal 2007. However, we terminated these over-the-counter product agreements with Leiner on April 18, 2007. This action was taken by us after receiving notice that, on March 16, 2007, Leiner had been served with a list of inspection observations on a Form 483 from the U.S. FDA and, in response thereto, on March 20, 2007, suspended all of its packaging, production and distribution of over-the-counter products manufactured, packaged or tested at its facilities in the United States. Under the terminated agreement, we had provided Leiner with supplies of API to produce over-the-counter products as well as supplies of finished dosage tablets, and rights to market certain of our over-the-counter products under development.

In Canada, in fiscal 2002, we entered into a profit sharing arrangement with Cobalt Pharmaceuticals Inc. and Pharmascience Inc. to market certain of our generic products.

United Kingdom. Dr. Reddy s Laboratories (U.K.) Limited, which we acquired in fiscal 2003, is engaged in the marketing of our generic products in the United Kingdom and other European Union countries. We currently market approximately 30 generic products representing over 89 dosage strengths. New product launches in fiscal 2007 included the generic versions of Sumatriptan. We also seek to expand our presence to the other European countries either directly or through strategic alliances.

Germany. In March 2006, we acquired 100% of beta Holding GmbH (betapharm) from 3i Group plc, a European private equity house. This acquisition allowed us to enter the German market. The German market has significant barriers to entry that largely emanate from the fact that generics in Germany are prescribed by brand rather than by active ingredient. The German generics market has certain distinct characteristics, as compared with other major markets including the United States, Japan and the United Kingdom. These include the method of promoting generics, the reimbursement and insurance system and the structure of the retail channel. The German government is currently

focused on reducing healthcare spending. During fiscal 2007, the German government passed the Economic Optimization of Pharmaceutical Care Act (Arzneimittelversorgungs-Wirtschaftlichkeisgestz or AVWG) which became effective as of May 1, 2006, which also is designed to contain increased pharmaceutical costs. The AVWG s provisions include, among other things: prohibitions on the provision of free goods to health professionals (including wholesalers, pharmacists, medical institutions, physicians etc.); limitations on the payment of rebates to wholesalers and pharmacists; prohibitions on price increases for medicinal products prior to March 31, 2008; implementation of additional mandatory rebates of 10% if pharmaceutical prices are not 30% below the reference prices as published by the Federal Associations of Healthcare Insurance funds; reduction of

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fixed prices as of July 1, 2006; and empowering the statutory health insurance funds to waive copayments by patients. Due to the AVWG, insurance companies operating in Germany have the power to influence prices in that country, and they have done so by releasing several products from co-payment. Going forward, we expect these insurance companies to further exert their influence to contain healthcare costs via the Federal Association of Healthcare Insurance Funds, which has far-reaching powers in the German health care system based on self-government of the participants in the system.

Through our national German sales force, we sell a broad and diversified range of generic pharmaceutical products, under the beta brand. The sales force targets primary care physicians and pharmacists and the key account management team targets insurance companies, various doctors and pharmacist associations. These efforts are supported by a direct marketing team and an active public relations program. Value-added services provided by the beta institut fur sozialmedizinische Forschung und Entwicklung GmbH, also known as the beta Institute for Sociomedical Research, are fully integrated into the sales and marketing effort and provide a unique differentiation point for our sales calls. The beta Institute for Sociomedical Research is a non-profit organization engaged in research and development in order to seek means of improving the healthcare process in ways which promote the psychological welfare of patients.

Our sales force promotes products to physicians and pharmacies by emphasizing product-specific factors, promoting our reputation and other promotional and customer relationship activities.

betapharm s key account management function focuses on statutory health insurance funds and various associations, to increase their influence in the generics market. betapharm is one of the few generic companies that have concluded agreements with the statutory health insurance funds.

Manufacturing and Raw Materials

As with formulations, generics are packaged in individual doses for consumption by the patient. In fiscal 2007, our generics segment procured 65.2% of its API requirements from our active pharmaceutical ingredients and intermediates segment.

For a majority of the products we sell in the United States and the United Kingdom (to the extent not manufactured in the United Kingdom), we manufacture our finished products at our plant in Bachupally, Andhra Pradesh, India. The facility in Andhra Pradesh, India is designed for the manufacture of tablets and hard gelatin capsules. We added large batch size tableting and pellets capabilities in this facility during fiscal 2003. We are dependent on third parties for the supply of the inactive pharmaceutical ingredients used in our products.

For our manufacturing operations in India, we source most of the raw material requirements with respect to the active pharmaceutical ingredients internally from our active pharmaceutical ingredients and intermediates segment. We are required to identify the suppliers of all the raw materials for our products in the drug applications that we file with the U.S. FDA If raw materials for a particular product become unavailable from an approved supplier specified in a drug application, we would be required to qualify a substitute supplier with the U.S. FDA, which would likely interrupt manufacturing of the affected product. To the extent practicable, we attempt to identify more than one supplier in each drug application. However, some raw materials are available only from a single source and, in some of our drug applications, only one supplier of raw materials has been identified, even in instances where multiple sources exist. In addition, we obtain a significant portion of our inactive pharmaceutical ingredients from foreign suppliers. Arrangements with international raw material suppliers are subject to, among other things, U.S. FDA regulations, various import duties and other government clearances.

Our facility in the United Kingdom is located at Beverley. This facility is designed for the packaging and warehousing of pharmaceutical products in a variety of dosage forms, including tablets, capsules, liquids and creams. The facility holds all relevant licenses and authorizations required to conduct all necessary activities, including the supply of materials for use in clinical studies. In addition, the quality systems for ensuring product quality planning and control are ISO 9000 accredited. We closed our other U.K. facility, which had been located at Battersea, in fiscal 2007. We transferred the manufacturing of most of the products from the Battersea facility to our facilities in India.

For our manufacturing operations in the United Kingdom, we are dependent on third parties for the supply of all pharmaceutical ingredients and packaging materials used in manufactured products. Supply agreements are in place with all of our suppliers. We are required to identify the suppliers of key raw materials, including all active materials

used in our products, within our applications to market products within the United Kingdom and Europe. If we wish to change to an alternative supplier, then we are required to substantiate the suitability of the alternative raw materials and seek prior approval from the health authority in each market where our products using the alternative raw materials are marketed.

We are in the process of expanding our facility at Bachupally, Andhra Pradesh to manufacture tablets and capsules. We are also

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in the process of establishing a facility at a Special Economic Zone located in Visakhapatnam, India to manufacture tablets and capsules. Upon completion of the facility, and commercialization of such products, the facility will cater to the requirements of North American and European customers for those products.

In Germany, manufacturing of betapharm s products and the logistics function have been outsourced to third party providers under supply and service agreements. In fiscal 2008, we intend to commence shifting manufacturing of betapharm s products and the logistics function from third party providers to our facilities in India.

Competition

Revenues and gross profit derived from the sales of generic pharmaceutical products are affected by certain regulatory and competitive factors. As patents and regulatory exclusivity for brand name products expire, the first off-patent manufacturer to receive regulatory approval for generic equivalents of such products is generally able to achieve significant market penetration. As competing off-patent manufacturers receive regulatory approvals on similar products, market share, revenues and gross profit typically decline, in some cases significantly. Accordingly, the level of market share, revenues and gross profit attributable to a particular generic product is normally related to the number of competitors in that product s market and the timing of that product s regulatory approval and launch, in relation to competing approvals and launches. Consequently, we must continue to develop and introduce new products in a timely and cost-effective manner to maintain our revenues and gross margins. In addition, the other competitive factors critical to this business include price, product quality, prompt delivery, customer service and reputation. Many of our competitors seek to participate in sales of generic products by, among other things, collaborating with other generic pharmaceutical companies or by marketing their own generic equivalent to their branded products. Our major competitors in the U.S. market include Ranbaxy Laboratories Limited, Teva Pharmaceutical Industries Limited, Barr Laboratories Inc., Mylan Laboratories Inc., Andrx Corporation, Watson Laboratories Inc., and Sandoz, a division of Novartis Pharma A.G.

Brand-name manufacturers have devised numerous strategies to delay competition from lower cost generic versions of their products. One of these strategies is to change the dosage form or dosing regimen of the brand product prior to generic introduction, which may reduce the demand for the original dosage form as sought by a generic ANDA dossier applicant or create regulatory delays, sometimes significant, while the generic applicant, to the extent possible, amends its ANDA dossier to match the changes in the brand product. In many of these instances, the changes to the brand product may be protected by patent or data exclusivities, further delaying generic introduction. Another strategy is the launch by the innovator or its licensee of an authorized generic during the 180-day generic exclusivity period, resulting in two generic products competing for the market rather than just the product that obtained the generic exclusivity. This may result in reduced revenues for the generic company which has been awarded the generic exclusivity period. In January 2006, we entered into an agreement with Merck & Co., Inc., allowing us to distribute and sell generic versions of finasteride and simvastatin (sold by Merck under the brand names Proscar® and Zocor®), upon the expiration of Merck s patents covered by these products, provided that some other company obtains 180-day exclusivity after the expiration of the patents for either product. Subsequently, the patents for both of these products expired and other companies obtained 180-day exclusivity. Accordingly, we launched sales of these products on June 19, 2006 and June 23, 2006, respectively.

In Germany, the companies with the largest generics market shares are continuing to increase their generics market shares. The top five generics companies (including their subsidiaries) in Germany hold an aggregate market share of approximately 54.9%, according to INSIGHT HEALTH s NPI-Gx (Sales March 2007) report. Our key competitors within the German generics market include Sandoz (including its Hexal, Sandoz and 1A Pharma subsidiaries), a division of Novartis Pharma A.G., Ratiopharm GmbH and Stada Arzneimittel AG (including its Stada and Aliud subsidiaries).

Government regulations

U.S. Regulatory Environment

All pharmaceutical manufacturers that sell products in the United States are subject to extensive regulation by the U.S. federal government, principally pursuant to the Federal Food, Drug and Cosmetic Act, the Hatch-Waxman Act, the Generic Drug Enforcement Act and other federal government statutes and regulations. These regulations govern or influence the testing, manufacturing, packaging, labeling, storing, record-keeping, safety, approval, advertising,

promotion, sale and distribution of products.

Our facilities and products are periodically inspected by the U.S. FDA, which has extensive enforcement powers over the activities of pharmaceutical manufacturers. Non-compliance with applicable requirements can result in fines, criminal penalties, civil injunction against shipment of products, recall and seizure of products, total or partial suspension of production, sale or import of products, refusal of the U.S. government to enter into supply contracts or to approve new drug applications and criminal prosecution. The U.S. FDA also has the authority to deny or revoke approvals of drug active ingredients and dosage forms and the power to halt the

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operations of non-complying manufacturers. Any failure by us to comply with applicable U.S. FDA policies and regulations could have a material adverse effect on the operations in our generics business.

U.S. FDA approval of an ANDA is required before a generic equivalent of an existing or referenced brand drug can be marketed. The ANDA process is abbreviated because when processing an ANDA, the U.S. FDA waives the requirement of conducting complete clinical studies, although it normally requires bio-availability and/or bio-equivalence studies. An ANDA may be submitted for a drug on the basis that it is the equivalent of a previously approved drug or, in the case of a new dosage form, is suitable for use for the indications specified.

An ANDA applicant in the United States is required to review the patents of the innovator listed in the U.S. FDA publication entitled *Approved Drug Products with Therapeutic Equivalence Evaluations*, popularly known as the Orange Book, and make an appropriate certification. There are several different types of certifications that can be made. A Paragraph IV filing is made when the ANDA applicant believes its product or the use of its product does not infringe on the innovator s patents listed in the Orange Book or where the applicant believes that such patents are not valid or enforceable. The first generic company to file a Paragraph IV filing may be eligible to receive a six-month marketing exclusivity period from the date a court rules the patent is invalid or not infringed. A Paragraph III filing is made when the ANDA applicant does not intend to market its generic product until the patent expiration. A Paragraph II filing is made where the patent has already expired. A Paragraph I filing is made when the innovator has not submitted the required patent information for listing in the Orange Book. Another type of certification is made where a patent claims a method of use, and the ANDA applicant s proposed label does not claim that method of use. When an innovator has listed more than one patent in the Orange Book, the ANDA applicant must file separate certifications as to each patent. Generally, Paragraph IV and Paragraph III filings are made before the product goes off patent, and Paragraph II and Paragraph I filings are made after the patent has expired.

Before approving a product, the FDA also requires that our procedures and operations conform to Current Good Manufacturing Practice (cGMP) regulations, relating to good manufacturing practices as defined in the U.S. Code of Federal Regulations. We must follow cGMP regulations at all times during the manufacture of our products. We continue to spend significant time, money and effort in the areas of production and quality testing to help ensure full compliance with cGMP regulations.

The timing of final U.S. FDA approval of an ANDA depends on a variety of factors, including whether the applicant challenges any listed patents for the drug and whether the brand-name manufacturer is entitled to one or more statutory exclusivity periods, during which the U.S. FDA may be prohibited from accepting applications for, or approving, generic products. In certain circumstances, a regulatory exclusivity period can extend beyond the life of a patent, and thus block ANDAs from being approved on the patent expiration date. For example, in certain circumstances the U.S. FDA may now extend the exclusivity of a product by six months past the date of patent expiration if the manufacturer undertakes studies on the effect of their product in children, a so-called pediatric extension.

In June 2003, the U.S. FDA announced reforms in its generic drug review program with the goal of providing patients with greater and more predictable access to effective, low cost generic alternatives to brand name drugs.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Medicare Act of 2003) has modified certain provisions of the Hatch-Waxman Act. In particular, significant changes have been made to provisions governing 180-day exclusivity and forfeiture thereof. The new statutory provisions governing 180-day exclusivity may or may not apply to an ANDA, depending on whether the first Paragraph IV certification submitted by any applicant for the drug was submitted prior to the enactment of the Medicare Amendments on December 8, 2003.

Where the first Paragraph IV certification was submitted on or after December 8, 2003, the new statutory provisions apply. Under these provisions, 180-day exclusivity is awarded to each ANDA applicant submitting a Paragraph IV certification for the same drug with regard to any patent on the first day that any ANDA applicant submits a Paragraph IV certification for the same drug. The 180-day exclusivity period begins on the date of first commercial marketing of the drug by any of the first applicants. However, a first applicant may forfeit its exclusivity in a variety of ways, including, but not limited to (a) failure to obtain tentative approval within 30 months after the application is filed or (b) failure to market its drug by the later of two dates calculated as follows: (x) 75 days after

approval or 30 months after submission of the ANDA, whichever comes first, or (y) 75 days after each patent for which the first applicant is qualified for 180-day exclusivity is either (1) the subject of a final court decision holding that the patent is invalid, not infringed, or unenforceable or (2) withdrawn from listing with the U.S. FDA (court decisions qualify if either the first applicant or any applicant with a tentative approval is a party; a final court decision is a decision by a court of appeals or a decision by a district court that is not appealed). The foregoing is an abbreviated summary of certain provisions of the Medicare Act, and accordingly it should be consulted for a complete understanding of both the provisions described above and other important provisions related to 180-day exclusivity and forfeiture thereof.

Where the first Paragraph IV certification was submitted prior to enactment of the Medicare Act, the statutory provisions governing

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180-day exclusivity prior to the Medicare Act still apply. The U.S. FDA interprets these statutory provisions to award 180-day exclusivity to each ANDA applicant submitting a Paragraph IV certification for the same drug on the same day with regard to the same patent on the first day that any ANDA applicant submits a Paragraph IV certification for the same drug with regard to the same patent. The 180-day exclusivity period begins on the date of first commercial marketing of the drug by any of the first applicants or on the date of a final court decision holding that the patent is invalid, not infringed, or unenforceable, whichever comes first. A final court decision is a decision by a court of appeals or a decision by a district court that is not appealed

European Union Regulatory Environment

The activities of pharmaceutical companies within the European Union are governed by Directive 2001/83EC as amended. This Directive outlines the legislative framework, including the legal basis of approval, specific licensing procedures, and quality standards including manufacture, patient information and pharmaco-vigilance activities.

Our U.K. facilities are licensed and periodically inspected by the U.K. MHRA Inspectorate, which has extensive enforcement powers over the activities of pharmaceutical manufacturers. Non-compliance can result in product recall and closure. In addition, the U.K. MHRA Inspectorate has approved and periodically inspected our manufacturing facility based in Andhra Pradesh, India for the manufacture of generic tablets and capsules for supply to Europe.

All pharmaceutical companies that manufacture and market products in Germany are subject to the rules and regulations defined by the German drug regulator, the Bundesinstitut für Arzneimittel und Medizinprodukte (BfArM) and the Federal Drug Authorities. Our facilities in Germany are licensed and periodically inspected by the Federal Drug Authorities, which has extensive enforcement powers over the activities of pharmaceutical companies. Non-compliance can result in closure of the facility.

Prior approval of a Marketing Authorization is required to supply products within the European Union. Such Marketing Authorizations may be restricted to one member state then recognized in other member states or can cover the whole of the European Union, depending upon the form of registration elected. In Germany, Marketing Authorizations have to be submitted for approval to the BfArM.

Generic or abridged applications omit full non-clinical and clinical data but contain limited non-clinical and clinical data, depending upon the legal basis of the application or to address a specific issue. The majority of our generic applications are made on the basis of essential similarity although other criteria may be applied. In the case of an essentially similar application, the applicant is required to demonstrate that its generic product contains the same active pharmaceutical ingredients in the same dosage form for the same indication as the innovator product. Specific data is included in the application to demonstrate that the proposed generic product is essentially similar to the innovator product with respect to quality, safe usage and continued efficacy. The applicant is also required to demonstrate bioequivalence with the reference product. Once all these criteria are met then a Marketing Authorization may be considered for grant.

Unlike in the United States, there is no regulatory mechanism within the European Union to challenge any patent protection. Nor is any period of market exclusivity conferred upon the first generic approval. In situations where the period of exclusivity given to the branded product expires before their patent expires, the launch of our product would then be delayed until patent expiration.

In Germany, the new government passed a new healthcare reform, the Statutory Health Insurance - Competition Strengthening Act or Wettbewerbsstärkungsgesetz (WSG), which became effective as of April 1, 2007. Highlights of this new act are:

- private insurance funds cannot refuse to provide health insurance to anyone who is without private health insurance coverage or who wants to switch from the public system; for these patients, private insurance funds need to offer basic rates in the future;

- insurance funds are encouraged to enter into contracts with doctors, pharmacies and the pharmaceutical industry designed to lower the costs for the supply of patients with medicinal products (e.g., rebate agreements with the pharmaceutical industry and pharmacists) and integrating different fields of care to lower medical treatment costs (e.g., agreements with doctors requiring general practitioners to be the gatekeepers to access to medical specialists);

insurance funds can cause drugs that are covered by rebate contracts with the pharmaceutical industry to be exempt from co-payments by patients;

in filling prescriptions, pharmacists are required to give prefererence to drugs subject to rebates, unless the physician has explicitly excluded replacement of the prescribed drug;

rebated medicinal products might, depending on individual agreements with physicians, be exempted from individual prescribing limits of the physicians (in Germany, physicians are given prescribing limits by insurance funds based on their number of patients, and if those limits are exceeded, the physicians can be penalized);

patients included in integrated care routes (see above) shall preferably receive rebated medicinal products; and

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in making decisions pertaining to the prescription of drugs or filling of prescriptions, drugs will be evaluated not only from a benefit perspective but also from a cost perspective.

Canada and South Africa Regulatory Environment

In Canada and South Africa, we are required to file product dossiers with the particular country s regulatory authority for permission to market the generic formulation. The regulatory authorities may inspect our manufacturing facility before approval of the dossier.

Critical Care and Biotechnology Segment

The critical care and biotechnology businesses were started in 1998 to focus on and create a strong technology base in these areas. While this area of our business generates low sales volume, these products generally carry a higher profit margin. Our critical care products are formulations used in hospitals to treat cancer and for supportive care. Our biotechnology products cover recombinant protein therapeutics development.

The following table provides revenues for this segment for fiscal 2005, 2006 and 2007. The critical care division accounted for 78.02% of this segment s revenues in fiscal 2007, contributing Rs.642.77 million. The biotechnology division accounted for 21.98% of this segment s revenues in fiscal 2007, contributing Rs.181.09 million.

	Fiscal Year ended March 31,						
	2005		2006		2007		
Division	Revenues (in millions)	% Total	Revenues (in millions)	% Total	Revenues (in millions)		% Total
Critical Care	Rs. 407.9	77.4%	Rs. 517.5	74.9%	Rs. 642.8	U.S.$ 14.9	78.0%
Biotechnology	119.2	22.6%	173.6	25.1%	181.1	4.2	22.0%
Total	Rs. 527.1	100.0%	Rs. 691.1	100.0%	Rs. 823.9	U.S.$ 19.1	100.0%

The following table sets forth revenues of our critical care and biotechnology segment by geographic area for fiscal 2005, 2006 and 2007, respectively:

	Fiscal Year ended March 31,						
	2005		2006		2007		
Division	Revenues (in millions)	% Total(1)	Revenues (in millions)	% Total(1)	Revenues (in millions)		% Total(1)
India	Rs.360.7	68.4%	Rs.450.4	65.2%	Rs.555.5	U.S.$12.9	67.4%
Russia	62.3	11.8%	93.0	13.4%	89.9	2.1	10.9%
Other CIS(1)	19.4	3.7%	56.5	8.2%	50.2	1.2	6.1%
Other	84.7	16.1%	91.2	13.2%	128.3	2.9	15.6%
Total	Rs.527.1	100%	Rs.691.1	100.0%	Rs.823.9	U.S.$19.1	100%

(1) Refers to our revenues from market sales in the applicable country expressed as a percentage of our total revenues throughout the

world.

Product Portfolio

The following table sets forth the sales of our key products in fiscal 2005, 2006 and 2007

		Fiscal Year ended March 31,						
	Therapeutic	2005		2006		2007		
Product	Category	Revenues (Rs. in millions)	% Total(1)	Revenues (Rs. in millions)	% Total(1)	Revenues (in millions) Rs.	U.S.$	% Total(1)
Mitotax	Ovarian/breast/lung cancer	178.8	33.9%	231.8	33.5%	194.17	4.51	23.57%
Docetere	Breast/lung cancer	73.2	13.9%	81.6	11.8%	94.11	2.18	11.42%
Cytogem	Lung/pancreatic cancer	59.1	11.2%	55.7	8.1%	130.64	3.03	15.86%
Dacotin	Colorectal cancer	25.9	4.9%	43.8	6.3%	63.29	1.47	7.68%
Grafeel	Supportive therapeutic	119.2	22.6%	173.6	25.1%	181.09	4.20	21.98%
Total		456.2	86.5%	586.5	84.9%	663.29	15.39	80.51%

(1) Refers to our revenues from sales of the applicable product expressed as a percentage of the total revenues of our critical care and biotechnology segment.

Critical care. We focus on high margin, low volume products for niche markets in India in the area of critical care. Our main

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products are Mitotax (paclitaxel), Cytogem (gemcitabine), Docetere (docetaxel) and Irinocam (irinotecan). We also market Dacotin (oxaliplatin), which is licensed and imported from Debiopharm S.A. of Switzerland. We are also developing oncology generics focused on U.S. and European markets. We have entered into a revenue sharing agreement with Pliva d.d., an Eastern European generics company, for the development and marketing of a group of oncology products for the European markets.

Biotechnology. Grafeel, the bio-generic version of filgrastim, is the only biotechnology product we sold in fiscal 2007. Filgrastim is a recombinant protein used in chemotherapy-induced neutropenia and in bone marrow transplantation. Grafeel has been launched in India, Brazil and certain other countries.

We are developing cell-culture and E. Coli based biogeneric recombinant proteins and have a portfolio of products in various stages of development. The most advanced of these developing biotechnology products is rituximab, which we expect to launch in India during the first half of fiscal 2008.

We view biotechnology as a business with significant potential. Our commitment to the business is reflected in our investments in building the research and development infrastructure, including laboratories and scientific teams.

Sales, Marketing and Distribution Network.

The marketing of our critical care and biotechnology products is handled by a dedicated sales and marketing team. We sell our products through clearing and forwarding agents in India. In India, the marketing team promotes our products to medical specialists and focuses on sales to hospitals, government agencies and non-government institutional organizations.

We also have a partnership agreement with Pliva d.d., an Eastern European generics company, for the development by us and marketing by Pliva d.d. of a group of oncology products for the European markets.

Manufacturing and Raw Materials

Critical care. For our critical care products, we manufacture all of the active pharmaceutical ingredients. The manufacturing of the formulation is undertaken at our formulations facility. We source some of the products from third party suppliers. We have completed construction of a completely contained API facility for the manufacture of cytotoxic products. Construction of another API facility for anti-hormonal products for cancer therapy was completed in August 2005. We have completed construction of a fully contained facility (i.e., an isolated environment where the workers are not exposed to the materials or machinery) in Visakhapatnam, India for the manufacture of oral solid dosage form and injectable forms of cytotoxic as well as hormonal products catering primarily to the U.S. and European markets. The exhibit batches of these products are in progress. As part of our plan to increase our range of cancer therapy products, we also plan to introduce certain other cancer therapy products in the Indian market.

Biotechnology. We have a facility at Bachupally, Andhra Pradesh, India for the manufacture of our biotechnology products. The manufacture of our biotechnology products involves cloning proteins and then extracting the proteins by fermentation and purification.

Competition

Critical care. For our critical care products, our main competitors in the oncology market in India are Dabur Pharma Limited, Cipla Limited, Eli Lily & Co. and Aventis India Limited. For our oncology products currently under development, our main competitors include generics companies in India, Europe and the United States with a focus on development of oncology products, including Mayne Group Limited (Australia), Zydus Cadila Group (India) and Pliva d.d. (Croatia).

Biotechnology. In our biotechnology business, our marketed product faces competition primarily from the innovator company. Given the significant potential of the biogenerics market, several companies are focused on the development of biogenerics, including Sandoz, a division of Novartis Pharma A.G., Teva Pharmaceutical Industries Limited, and Barr Laboratories, Inc.

Government Regulations

Critical care. For critical care products, the regulations are similar to those discussed in the formulations, API and generics segments.

Biotechnology. The biotechnology sector in India is governed by the guidelines/rules formulated by the Department of Biotechnology (DBT), under the Indian government s Ministry of Science and Technology. The guidelines cover the entire requirements of various other related ministries/statutory departments of the government of

India.

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A business which intends to manufacture and market biotechnology products is required to form an Institutional Bio Safety Committee (IBSC) consisting of internal experts on related fields as well as a nominee of the DBT and Central Pollution Control Board (CPCB). The IBSC reviews, verifies and approves the product application before submitting it to the Review Committee of Genetic Manipulation (RCGM) under the Indian government s Ministry of Science and Technology. The RCGM verifies and approves all the data included in the application including the protocol and final reports on animal toxicity and human clinical trials.

Once clearance is obtained from the RCGM, the business is required to obtain clearance from the Genetic Engineering Approval Committee (GEAC) under the Ministry of Environment and Forest, government of India. The GEAC forwards its recommendation to the DBT and DCGI. Upon receipt of a No Objection Certificate from the DCGI, the business is required to obtain a manufacturing license from the State Drugs Authority and thereafter can commence commercial marketing.

Drug Discovery Segment

Drug discovery is a key segment of our business. In this segment, we are actively pursuing discovery and development of new molecules, sometimes referred to as New Chemical Entities or NCEs. Our research programs focus on the following therapeutic areas:

Metabolic disorders

Cardiovascular disorders

Bacterial infections

Inflammation

Cancer

Our research laboratories are based in Hyderabad, India and Atlanta, Georgia, U.S. As of March 31, 2007, we employed a total of 283 scientists, including approximately 56 scientists who held Ph.D. degrees. We pursue an integrated research strategy with our laboratories in the United States focusing on discovery of new molecular targets and designing of screening assays to screen for promising lead molecules followed by selection and optimization of lead molecules and further clinical development of those optimized leads at our laboratories in India. By establishing a research facility in the United States, we have better access to research scientists in the United States, enhancing our screening abilities for new molecular targets and access to high technology platforms.

While we continue to seek licensing and development arrangements with third parties to further develop our pipeline products, we also conduct clinical development of some of the candidate drugs ourselves where it is economically and technically feasible. Our long-term strategy for drug discovery is to increasingly undertake clinical testing ourselves, as we believe that this will enable us to derive higher value for our compounds. Our goal is to balance internal development of our own product candidates with in-licensing of promising compounds that complement our strengths. We also pursue licensing and joint development of some of our lead compounds with companies looking to implement their own product portfolio.

In September 2005, we entered into a co-development and commercialization agreement with Denmark based Rheoscience A/S for the joint development and commercialization of balaglitazone (DRF 2593), a partial PPAR-gamma agonist, for the treatment of type 2 diabetes. Under the terms of the agreement, Rheoscience will fund all the costs associated with the Phase III clinical trials of DRF 2593 and we will pay Rheoscience a pre-determined amount towards its share of the development costs. Rheoscience has exclusive marketing rights in the European Union and China, and we have exclusive marketing rights in the rest of the world. Rheoscience is obligated to obtain all necessary regulatory approvals on our behalf in the United States. Upon receiving final approval from the U.S. FDA, we are obligated to make a pre-determined milestone payment to Rheoscience. The agreement is valid for a period of ten years from the date of commercialization. Under the terms of the agreement, if either party chooses to commercialize the product without the other, then the other party will be entitled to a milestone-based royalty on sales. However, if the parties choose to commercialize the product through a third party, then each of the parties is

entitled to share a pre-determined percentage of the net proceeds of commercialization received. We also retain the right to supply clinical development and commercial quantities of the requisite active pharmaceutical ingredients on arms-length basis to the party that commercializes DRF 2593. After completion of long term carcinogenicity studies, as at March 2007, DRF 2593 is scheduled to enter Phase III clinical trials.

In September 2005, we announced the formation of an integrated drug development company, Perlecan Pharma Private Limited (Perlecan Pharma), as a joint venture with Citigroup Venture Capital International Growth Partnership Mauritius Limited (CVC) and ICICI Venture Funds Management Company (ICICI Venture). The terms of the joint venture were amended in March 2006. Under the terms of the joint venture agreement, CVC and ICICI Venture each contributed Rs.1,018 million and we contributed Rs.170 million towards Perlecan s initial equity capital. Furthermore, the agreement grants us the first right to conduct product development and clinical trials on behalf of Perlecan Pharma on an arm s length basis, subject to the final decision by the board of

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directors of Perlecan Pharma. During fiscal 2007, we entered into a Research Services Agreement with Perlecan Pharma pursuant to which we provide Perlecan Pharma with clinical development support and services.

Perlecan Pharma has certain development rights with respect to additional NCE assets that we discover and we have certain commercialization rights with respect to products that Perlecan Pharma develops. In addition, as part of this arrangement, we transferred all rights and title, including the development and commercialization rights, of four NCE assets to Perlecan Pharma. As a result, we own approximately 14.31% of the equity of Perlecan Pharma and we have the right to designate three out of seven directors on the board of Perlecan Pharma. In addition, Perlecan Pharma has issued warrants to us to purchase 45,000,000 equity shares of Perlecan Pharma, the exercise of which is contingent upon the success of certain research and development milestones. If the warrants are fully exercised, then we will own approximately 62.5% of the equity shares of Perlecan Pharma. During fiscal 2007, Perlecan Pharma discontinued the development of DRL 11605, one of the the four NCE assets.

In September 2006, we entered into an agreement with ClinTec International for the joint development of an anti-cancer compound, DRF 1042, belonging to the Topoisomerase inhibitors class of compounds for use as potential treatment of various types of cancer. We have completed Phase I clinical trials for DRF 1042 in India. Under the terms of the agreement, we and ClinTec International will co-develop DRF 1042, undertaking Phase II and Phase III clinical trials, with the aim of securing U.S. FDA and EMEA approvals. ClinTec International is granted the commercialization rights for most of Europe, including major European markets, and we retain the commercialization rights for the rest of the world, including the United States. Upon commercialization of the product, we will receive a royalty on sales by ClinTec International in its designated territories and ClinTec International will receive a royalty on sales by us in the United States. In the event either party out-licenses the drug product, the proceeds from such an arrangement will be shared by both the parties in a pre-determined ratio (excluding the proceeds from out-licenses of the drug product to our territories outside the United States). We will also retain the exclusive, worldwide rights to supply commercial quantities of the drug product.

As part of our research program, we pursue collaborations with leading institutions and laboratories all over the world. We enter into these collaborations to utilize the expertise and facilities these institutions and laboratories provide. We have collaborated with the National Cancer Institute in Maryland, which is a part of the United States National Institutes of Health. In February 2006, we entered into an agreement with Argenta Discovery Limited (Argenta) for the joint development and commercialization of a novel approach to the treatment of Chronic Obstructive Pulmonary Disease (COPD). Under the terms of the agreement, the parties agreed to collaborate to identify clinical candidates from a certain class of our compounds for use as potential treatments for COPD. Both parties agreed to jointly develop the selected candidates from the pre-clinical stage up to Phase IIa (proof-of-concept). Upon successful completion of a Phase IIa trial, the parties may either license-out the candidate for further development and commercialization to a larger pharmaceutical company or continue the further co-development and commercialization themselves. We and Argenta have agreed to fund the joint collaboration up to proof-of-concept and share the development expenses equally and profits at a predetermined ratio. DRF 2546 was identified as candidate that could be developed for COPD, and preclinical development has begun.

Our investments into research and development of NCEs have been consistently focused towards developing promising therapeutics. In fiscal 2005, 2006 and 2007, we spent Rs.868.9 million, Rs.814.5 million and Rs.774.6, respectively, towards drug discovery activities. In fiscal 2005, 2006 and 2007, we received Rs.288.4 million, Rs.0 and Rs.136.8 in revenues, respectively, from drug discovery activities.

The compounds currently under development in our pipeline include:

DRF 2593	Metabolic disorders	Phase II completed	Rheoscience	Long-term carcinogenicity studies completed. Entered Phase III clinical testing in July 2007.
DRF 10945	Metabolic disorders	Phase II in progress	Assigned to Perlecan	Completed Proof of Concept for Type IV/V dyslipidemia.

RUS 3108	Cardiovascular	Phase I completed	Assigned to Perlecan	Perlecan inducer for the treatment of atherosclerosis. Scheduled to enter Phase II clinical testing in April 2008.
DRL 16536	Metabolic disorders	Phase I in progress	Assigned to Perlecan	AMPK modulator for the treatment of diabetes. Phase I Multiple Ascending Dose scheduled to begin in November 2007.
DRF 1042	Oncology	Phase I	Clintec	Scheduled to enter Phase II clinical testing for solid tumors.

Patents. The status of patents filed and issued as of March 31, 2007 is summarized below:

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Category	USPTO[1] (Filed)	USPTO[1] (Granted)	PCT[2] (Filed)	India (Filed)	India (Granted)
Anti-diabetic	68	39	60	110	30
Anti-cancer	13	8	12	43	12
Anti-bacterial	7	4	7	20	2
Anti-inflammation/ Cardiovascular	33	9	13	14	1
Anti-ulcerant	1	1		1	
Miscellaneous	4	1	3	23	5
TOTAL	126	62	95	211	50

(1) USPTO means the United States Patent and Trademark Office.

(2) PTC means the Patent Cooperation Treaty, an international treaty that facilitates foreign patent filings for residents of member countries when obtaining patents in other member countries.

Stages of Testing / Development. The stages of testing required before a pharmaceutical product can be marketed in the United States are generally as follows:

Stage of Development	Description
Preclinical	Animal studies and laboratory tests to evaluate safety and efficacy, demonstrate activity of a product candidate and identify its chemical and physical properties.
Phase I	Clinical studies to test safety and pharmacokinetic profile of a drug in humans.
Phase II	Clinical studies conducted with groups of patients to determine preliminary efficacy, dosage and expanded evidence of safety.
Phase III	Larger scale clinical studies conducted in patients to provide sufficient data for statistical proof of efficacy and safety.

For ethical, scientific and legal reasons, animal studies are required in the discovery and safety evaluation of new medicines. Preclinical tests assess the potential safety and efficacy of a product candidate in animal models. The

results of these studies must be submitted to the U.S. FDA as part of an Investigational New Drug (IND) application before human testing may proceed.

U.S. law further requires that studies conducted to support approval for product marketing be adequate and well controlled. In general, this means that either a placebo or a product already approved for the treatment of the disease or condition under study must be used as a reference control. Studies must also be conducted in compliance with good clinical practice requirements, and adverse event and other reporting requirements must be followed.

The clinical trial process can take five to ten years or more to complete, and there can be no assurance that the data collected will be in compliance with good clinical practice regulations, will demonstrate that the product is safe or effective, or, in the case of a biologic product, pure and potent, or will provide sufficient data to support U.S. FDA approval of the product. The U.S. FDA may place clinical trials on hold at any point in this process if, among other reasons, it concludes that clinical subjects are being exposed to an unacceptable health risk. Trials may also be terminated by institutional review boards, who must review and approve all research involving human subjects. Side effects or adverse events that are reported during clinical trials can delay, impede, or prevent marketing authorization.

Scientific Advisory Board. Our Scientific Advisory Board is composed of leading professionals in the field of healthcare and chemical sciences. These professionals contribute to the strategic definition and implementation of pre-clinical development plans for our products. Members of the advisory committee meet individually and as a group with our management on an annual basis.

Members	
Dr. Daniel Rader	Faculty in the Department of Medicine and the Director of Cardiovascular Metabolism unit at the Institute for Diabetes, Obesity and Metabolism, University of Pennsylvania
Dr. K. Janardhan Reddy	Professor and Chairman, Department of Pathology, Northwestern University Medical School, Chicago, Illinois, U.S.A.
Dr. Henry Ginsberg	Herbert Irving Professor of Medicine, Division of Preventive Medicine, Presbyterian Hospital, New York, U.S.A.
Dr. Ira J. Goldberg	Professor of Medicine, Division of Preventive Medicine and Nutrition Columbia University College of Physicians and Surgeons, New York, U.S.A.
Dr. K. Anji Reddy	Chairman, Dr. Reddy s Laboratories Limited
Dr. Uday Saxena	Chief Scientific Officer, Dr. Reddy s Laboratories Limited
Dr. R. Rajagopalan	President, Discovery Research, Dr. Reddy s Laboratories Limited

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Competition

The pharmaceutical and biotechnology industries are highly competitive. We face intense competition from organizations such as large pharmaceutical companies, biotechnology companies and academic and research organizations. The major pharmaceutical organizations competing with us have greater capital resources, larger overall research and development staff and facilities and considerably more experience in drug development. Biotechnology companies competing with us may have these advantages as well. In addition to competition for collaborators and investors, these companies and institutions also compete with us in recruiting and retaining highly qualified scientific and management personnel.

Government regulations

Virtually all pharmaceutical and biotechnology products that we or our collaborative partners develop will require regulatory approval by governmental agencies prior to commercialization. The nature and extent to which these regulations apply varies depending on the nature of the products and also vary from country to country. In particular, human pharmaceutical products are subject to rigorous pre-clinical and clinical testing and other approval procedures by the relevant regulatory agency. The requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement vary widely from country to country.

In India, under the Drugs and Cosmetics Act, 1940, the regulation of the manufacture, sale and distribution of drugs is primarily the concern of the state authorities while the Central Drug Control Administration is responsible for approval of new drugs, clinical trials in the country, laying down the standards for drugs, control over the quality of imported drugs, coordination of the activities of state drug control organizations and providing expert advice with a view of bringing about the uniformity in the enforcement of the Drugs and Cosmetics Act, 1940.

For marketing a drug in the United States, we or our partners will be subject to regulatory requirements governing human clinical trials, marketing approval and post-marketing activities for pharmaceutical products and biologics. Various federal and, in some cases, state statutes and regulations also govern or influence the manufacturing, safety, labeling, storage, record-keeping and marketing of these products. The process of obtaining these approvals and the subsequent compliance with applicable statutes and regulations is time consuming and requires substantial resources, and the approval outcome is uncertain.

Generally, in order to gain U.S. FDA approval, a company first must conduct pre-clinical studies in the laboratory and in animal models to gain preliminary information on a compound s activity and to identify any safety problems. Pre-clinical studies must be conducted in accordance with U.S. FDA regulations. The results of these studies are submitted as part of an IND application that the U.S. FDA must review before human clinical trials of an investigational drug can start. If the U.S. FDA does not respond with any questions, a drug developer can commence clinical trials thirty days after the submission of an IND.

In order to eventually commercialize any products, we or our collaborator first will be required to sponsor and file an IND and will be responsible for initiating and overseeing the clinical studies to demonstrate the safety and efficacy that are necessary to obtain U.S. FDA marketing approval. Clinical trials are normally done in three phases and generally take several years, but may take longer to complete. The clinical trials have to be designed taking into account the applicable U.S. FDA guidelines. Furthermore, the U.S. FDA may suspend clinical trials at any time if the U.S. FDA believes that the subjects participating in trials are being exposed to unacceptable risks or if the U.S. FDA finds deficiencies in the conduct of the trials or other problems with our product under development.

After completion of clinical trials of a new product, U.S. FDA marketing approval must be obtained. If the product is classified as a new pharmaceutical, we or our collaborator will be required to file a New Drug Application (NDA), and receive approval before commercial marketing of the drug. The testing and approval processes require substantial time and effort. NDAs submitted to the U.S. FDA can take several years to obtain approval and the U.S. FDA is not obligated to grant approval at all.

Even if U.S. FDA regulatory clearances are obtained, a marketed product is subject to continual review. If and when the U.S. FDA approves any of our or our collaborators products under development, the manufacture and marketing of these products will be subject to continuing regulation, including compliance with cGMP, adverse event reporting requirements and prohibitions on promoting a product for unapproved uses. Later discovery of previously unknown problems or failure to comply with the applicable regulatory requirements may result in restrictions on the

marketing of a product or withdrawal of the product from the market as well as possible civil or criminal sanctions. Various federal and, in some cases, state statutes and regulations also govern or influence the manufacturing, safety, labeling, storage, record keeping and marketing of pharmaceutical products.

Our research and development processes involve the controlled use of hazardous materials and controlled substances. We are subject to federal, state and local laws and regulations governing the use, manufacture, storage, handling and disposal of these materials and waste products.

Custom Pharmaceutical Services

Our Custom Pharmaceutical Services (CPS) business unit markets process development and manufacturing services to

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customers primarily consisting of innovator pharmaceutical and biotechnology companies. This segment accounted for 10.1% of our total revenues for fiscal 2007, contributing Rs.6,599.8 million.

The CPS business unit was established in 2001 to leverage our strength in process chemistry to serve the niche segment of the specialty chemical industry. Over the years, our CPS business strategy has evolved to focus on the marketing of process development and manufacturing services. The objective of our CPS segment is to be the preferred partner for innovator pharmaceutical companies, providing a complete range of services that are necessary to take their innovations to the market speedily and more efficiently. The focus is to leverage our skills in process development, analytical development, formulation development and cGMP manufacture to serve various needs of innovator pharmaceutical companies.

With the acquisition of the Falcon plant in Mexico, we are positioning our CPS segment to be the partner of choice for large and emerging innovator companies across the globe, with service offerings spanning the entire value chain of pharmaceutical services.

Sales, Marketing and Distribution Network.

We have focused business development teams dedicated to our key geographies of North America, the European Union and India targeting large and emerging innovator companies to build long-term business relationships focused on catering to their outsourcing needs.

Manufacturing and Materials

Our CPS segment has well-resourced synthetic organic chemistry laboratories, analytical laboratories, kilo laboratories and pilot plants at our technology development center at Miyapur, Hyderabad. To support our increasing CPS business, we added a new facility in fiscal 2007 at Jeedimetla, Hyderabad. We have already set up four laboratories at the new facility and are in the process of establishing another three laboratories in that region. Our chemists and engineers understand cGMP manufacturing and regulatory requirements for synthesis, manufacture and formulation of an NCE from pre-clinical stage to commercialization. Larger quantities of APIs and intermediates are sourced internally from our API segment. We acquired the Falcon plant, which was Roche s API manufacturing facility at Cuernavaca, Mexico, during fiscal 2006. This facility is U.S. FDA inspected and consists of seven manufacturing bays. The facility is well maintained with good systems and processes which were developed by Roche over the last decade. In addition to manufacturing the active pharmaceutical ingredients naproxen and naproxen sodium and a range of intermediates for Roche products, this facility synthesizes steroids for use in pharmaceutical and veterinary products.

Competition

Globally, the pharmaceutical manufacturing services industry is estimated to generate sales of U.S.$25-30 billion and is set to grow to sales of U.S.$45 billion by 2010, according to Express Pharma, an Indian pharmaceutical publication, in its June 1-15, 2006 edition. Contract manufacturing is still a nascent industry in India with sales in excess of U.S.$300 million, according to Express Pharma. Contract manufacturing is a significant opportunity for Indian pharmaceutical companies based on their low-cost manufacturing infrastructure. Key competitors in India include Torrent Pharmaceuticals Ltd., Shasun Chemicals & Drugs Ltd., Divi s Laboratories Ltd., Matrix Laboratories Ltd., Dishman Pharmaceuticals & Chemicals Ltd., Syngene Ltd. and Nicholas Piramal India Ltd. Key competitors from outside India include Lonza Group Ltd., Koninklijke DSM N.V., Albany Molecular Research, Inc., Patheon, Inc. and Cardinal Health, Inc. Our CPS segment distinguishes itself from its key competitors by offering a wider range of services spanning the entire pharmaceutical value chain.

Growth in contract manufacturing is likely to be driven by increasing outsourcing of late-stage and off-patent molecules by large pharmaceutical companies to compete with generics. India is emerging as an alliance and outsourcing destination of choice for global pharmaceutical companies. Companies such as Roche, Bayer, Aventis and Chiron are all executing plans to make India the regional hub for API and supply of bulk drugs.

Government Regulations

For Custom Pharmaceutical Services, the regulations are similar to those as discussed in the formulations, API and generics segments.

4.C. ***Organizational structure***

Dr. Reddy s Laboratories Limited is the parent company in our group. We had the following subsidiary companies where our direct and indirect ownership was more than 50% as of March 31, 2007:

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Name of Subsidiary	Country of Incorporation	Percentage of Direct/ Indirect Ownership Interest
DRL Investments Limited	India	100%
Reddy Pharmaceuticals Hong Kong Limited	Hong Kong	100%
OOO JV Reddy Biomed Limited	Russia	100%
Reddy Antilles N.V.	Netherlands	100%
Reddy Netherlands B.V.	Netherlands	100%(1)
Reddy US Therapeutics, Inc.	U.S.A.	100%(1)
Dr. Reddy s Laboratories, Inc.	U.S.A.	100%
Dr. Reddy s Farmaceutica do Brasil Ltda	Brazil	100%
Cheminor Investments Limited	India	100%
Aurigene Discovery Technologies Limited	India	100%
Aurigene Discovery Technologies, Inc.	U.S.A.	100%(3)
Kunshan Rotam Reddy Pharmaceutical Co. Limited	China	51.33%(4)
Dr. Reddy s Laboratories (EU) Limited	United Kingdom	100%
Dr. Reddy s Laboratories (U.K.) Limited	United Kingdom	100%(5)
Dr. Reddy s Laboratories (Proprietary) Limited	South Africa	60%
Reddy Cheminor S.A.	France	100%(2)
OOO Dr. Reddy s Laboratories Limited	Russia	100%
Dr. Reddy s Bio-sciences Limited	India	100%
Reddy Pharmaceuticals, Inc.	U.S.A.	100%(6)
Trigenesis Therapeutics, Inc.	U.S.A.	100%
Industrias Quimicas Falcon de Mexico, SA de CV	Mexico	100%
Reddy Holding GmbH	Germany	100%(7)
Lacock Holdings Limited	Cyprus	100%
betapharm Arzneimittel GmbH	Germany	100%(8)
beta Healthcare Solutions GmbH	Germany	100%(8)
beta institut fur sozialmedizinische Forschung und Entwicklung GmbH	Germany	100%(8)
Reddy Pharma Iberia SA	Spain	100%
Reddy Pharma Italia SPA	Italy	100%(7)
Dr. Reddy s Laboratories (Australia) Pty Ltd.	Australia	70%

(1) Indirectly owned through Reddy Antilles N.V.

(2) Subsidiary under liquidation.

(3) Indirectly owned through Aurigene Discovery

Technologies Limited.

(4) Kunshan Rotam Reddy is a subsidiary as we hold a 51.33 % stake in it; however, we account for this investment by the equity method and do not consolidate it in our financial statements.

(5) Indirectly owned through Dr. Reddy s Laboratories (EU) Limited.

(6) Indirectly owned through Dr. Reddy s Laboratories Inc.

(7) Indirectly owned through Lacock Holdings Limited.

(8) Indirectly owned through Reddy Holding GmbH.

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4.D. ***Property, plant and equipment***

The following table sets forth current information relating to our principal facilities:

Location	Approximate Area (Square feet)	Built up Area (Square feet)	Certification	Installed Capacity	Actual Production
Formulations				3,440[6][7]	3,715[6]
Bollaram, Andhra Pradesh, India	217,729	207,959	[1]		
Bachupally, Andhra Pradesh, India	1,306,372	198,909	[2]		
Yanam, Pondicherry, India	457,000	26,226	None		
Baddi, Himachal Pradesh, India	765,542	247,028	None		
Active Pharmaceutical Ingredients and Intermediates				3,393[8]	3,039[8]
Bollaram, Andhra Pradesh, India	734,013	172,879	U.S. FDA and EuGMP		
Bollaram, Andhra Pradesh, India	648,173	286,193	U.S. FDA and EuGMP		
Bollaram, Andhra Pradesh, India	285,235	210,630	U.S. FDA and EuGMP		
Jeedimetla, Andhra Pradesh, India	228,033	74,270	U.S. FDA and EuGMP		
Miryalguda, Andhra Pradesh, India	2,787,840	337,063	U.S. FDA		
Pydibheemavaram, Andhra Pradesh, India	8,523,466	905,612	U.S. FDA		
Pydibheemavaram, Andhra Pradesh, India [4]	737,134	53,854			
Generics				7,500[6]	3,014[6]
Bachupally, Andhra Pradesh, India [4]	783,823	253,503	[3]		
Beverley, East Yorkshire, United Kingdom	64,904	15,179	U.K. Medicine Control Agency, ISO 9001: 2000		
Critical Care and Biotechnology					
Bachupally, Andhra Pradesh, India	174,183	123,300	[1]	370[9]	61.6[9]
Bollaram, Andhra Pradesh, India	20,089	20,089	U.S. FDA		
Pydibheemavaram, Andhra Pradesh, India	15,494	15,494	U.S. FDA		

Drug Discovery[10]					
Miyapur, Andhra Pradesh, India	576,941	234,591	None		
Georgia, United States [5]	24,733	24,733	None		
Custom Pharmaceutical Services				3,428[9] [11]	2,533[9] [11]
Miyapur, Andhra Pradesh, India	113,211	73,644	None		
Jeedimetla, Andhra Pradesh, India	68,825	16,597	None		
Cuernavaca, Mexico	2,793,665	1,345,488	None		

(1) Ministry of Health, Sudan; Ministry of Health, Uganda; ANVISA, Brazil; National Medicines Agency, Romania.

(2) Medicine Control Council, Republic of South Africa; The State Company for Marketing Drugs and Medical Appliances, Ministry of Health, Iraq; Sultanate of Oman, Ministry of Health, Muscat; Ministry of Health, Sudan; Ministry of Health, State of Bahrain; State Pharmaceutical Inspection, Republic of Latvia; Pharmaceutical and Herbal Medicines, Registration and Control

Administrations, Ministry of Health, Kuwait; National Medicines Agency, Romania; ANVISA, Brazil; Medicines and Health Care Products Regulatory Agencies (MHRA), U.K.

(3) U.S. FDA; Medicines and Healthcare Products Regulatory Agency, U.K.; Ministry of Health, UAE; Medicines Control Council, South Africa; ANVISA, Brazil ; Environmental Management System ISO 14001; Occupational Health and Safety Management System OHSAS 18001; Quality Management System-ISO 9001:2000.

(4) 100% Export Oriented Unit.

(5) Leased facilities.

(6) Million units.

(7) On a single shift basis.

(8) Tonnes.

(9) Grams.

(10) Laboratories only.

(11) Mexico only.

Except as indicated in the notes above, we own all of our facilities. All properties mentioned above, including leased properties, are either used for manufacturing and packaging of pharmaceutical products or for research and development activities. In addition,

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we have sales, marketing and administrative offices, which are leased properties. We believe that our facilities are optimally utilized.

The new facility for the manufacture of formulations at Baddi, Himachal Pradesh, India was completed in April 2006. This project was initiated to take advantage of certain financial benefits, which include exemption from income tax and excise duty for a specified period, offered by the government of India to encourage industrial growth in the state of Himachal Pradesh, India.

We expanded our Generics plant at Bachupally, Hyderabad, Andhra Pradesh, India in a two phase process to increase the production capacity to manage high demand periods. Both phases of expansion have been completed, although only the facilities added in the first phase have been put into operation. The plant is intended to be a 100% export oriented unit under Indian law, meaning that it will export its total production to customers abroad and, as a result, will qualify for certain tax exemptions and other benefits under Indian law. We are also in the process of establishing a global distribution centre at Bachupally, Hyderabad, Andhra Pradesh, India, which is expected to commence operations in fiscal 2008. An integrated product development facility is under construction at Bachupally, Hyderabad, Andhra Pradesh, India, which is expected to commence operations in fiscal 2008.

We have completed construction of a facility at a Special Economic Zone in Visakhapatnam, Andhra Pradesh, India for the manufacture of oral and injectible cytotoxic finished dosages. Exhibit batches are being produced at this facility and we are expecting commercial production to commence in fiscal 2008.

We are also in the process of establishing a plant in a Special Economic Zone in Andhra Pradesh, India for the manufacture of Formulations and APIs. Preliminary steps for this purpose have been initiated.

We have working capital facilities with banks and, in order to secure those facilities, we have created encumbrance charges on certain of our immovable and movable properties.

We are subject to significant national and state environmental laws and regulations which govern the discharge, emission, storage, handling and disposal of a variety of substances that may be used in or result from our operations at the above facilities. Non-compliance with the applicable laws and regulations may subject us to penalties and may also result in the closure of our facilities.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Overview

We are an emerging global pharmaceutical company with proven research capabilities. We derive our revenues from the sale of finished dosage forms, active pharmaceutical ingredients and intermediates and biotechnology products, with a focus on India, the United States, Europe and Russia; from development and manufacturing services provided to innovator pharmaceutical and biotechnology companies; and from license fees from our drug discovery operations.

As of March 31, 2007, we had the following business segments:

Formulations. In this segment we derive revenues from the sale of finished dosage forms, primarily in India and other emerging markets. Key drivers of profitability in this segment are the volume and price of products sold, which in turn are dependent upon the popularity of our branded products in the relevant markets. Increases in this segment in recent periods have been on account of our increased marketing efforts and expansion of our markets.

Active pharmaceutical ingredients and intermediates. In this segment we derive revenues from our sales to third parties of the principal ingredients for finished dosages. Our principal markets are Europe, the United States and India. Revenues in this segment are dependent upon the number of products that lose patent protection in any given period, and the price of those products, which tends to decline over time. These being commoditized products, our ability to set prices is limited, while the cost of revenues generally remains stable. Thus, in any given period, different products will contribute varying amounts to our revenues and our gross profits. Recent increases in revenues from this segment have generally been due to increased sales volumes.

Generics. In this segment we derive revenues from the sale of therapeutic equivalents of branded drugs, primarily in Europe and the United States. Revenues from beta Holding GmbH (betapharm), our recently acquired subsidiary in Germany, are included in this segment from March 3, 2006 and thus will tend to increase revenues from this segment

in future periods. Revenues from our sale of generics are highly cyclical. In the event that we obtain 180-day exclusivity for a particular product, we generally experience

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significantly increased revenues for this period, particularly at the beginning of the period, with sales prices decreasing toward the end of the 180 days as other manufacturers enter the market. Cost of sales remains generally constant, however, and thus products coming off patent contribute significantly to gross margins for a limited period, tending to increase volatility in this segment. In fiscal 2007, we launched two products pursuant to an agreement for authorized generics, which the innovator company licensed us to distribute generic versions of their branded product and sell it in competition with the companies that have 180-day exclusivity. In these cases, while sales volumes increase significantly (again, more significantly in the early part of the 180-day period), profit-sharing agreements with the innovator company mean that gross margins are much lower than would be the case if we were distributing the product under 180-day exclusivity. Additionally, the existence of authorized generic arrangements (a relatively new development) by innovator companies with other manufacturers in cases where we have obtained 180-day exclusivity could adversely affect overall sales revenues during the 180-day period.

Critical care and biotechnology. In this segment we derive revenues from the sale of our critical care and biotechnology products, primarily to hospitals in India. Revenues are driven by the volume of products sold, and the price of those products. These are generally low-volume, higher gross margin products, although pricing pressure in key products has recently reduced gross margins.

Drug discovery. Revenues in this segment are derived from licensing fees for new molecules that we discover. Thus, revenues are dependent upon the success of our research activities, and may vary significantly from period to period depending upon whether specified milestones in licensing agreements are reached. In September, 2005, we formed Perlecan Pharma Private Limited as a joint venture with Citigroup Venture Capital International Growth Partnership Mauritius Limited and ICICI Venture Funds Management Company and contributed capital and four NCE assets to Perlecan. Perlecan has continued development of these NCE assets.

Custom pharmaceutical services. In this segment we derive revenues from service fees for process development and manufacturing services provided to innovator pharmaceutical and biotechnology companies. Revenue from our acquired subsidiary Falcon are included in this segment from December 30, 2005 and thus would tend to increase revenues from this segment in future periods. The key driver of revenue in this segment is likely to be the increasing outsourcing of late-stage and off-patent molecules by large pharmaceutical companies to compete with generics.

In addition, we are currently in the research and development phase of a specialty pharmaceuticals business, which may become a separate segment at some point in the future.

Our total revenues for fiscal 2007 were Rs.65,095.1 million (U.S.$1,510.3 million). We derived 14.1% of these revenues from sales in India, 43.5% from the United States and Canada (North America), 7.3% from Russia and other countries of the former Soviet Union, 22.8% from Europe and 12.3% from other countries. Our net income for fiscal 2007 was Rs.9,326.8 million (U.S.$216.4 million).

Acquisition of betapharm Group

During fiscal 2006, we acquired beta Holding Gmbh (betapharm) which, according to INSIGHT Health s NPI-Gx reports, was Germany s fourth largest generic pharmaceuticals company at the time of acquisition. The aggregate purchase price was 482.6 million (Rs.26,063.3 million) in cash. betapharm has a portfolio of 145 products and, according to INSIGHT Health s NPI-Gx reports, has been the fastest growing among the 10 largest generics companies in Germany. As a result of this acquisition, the financials of betapharm have been consolidated with our generics segment effective as of March 3, 2006.

Acquisition of Industrias Quimicas Falcon de Mexico

During fiscal 2006,we acquired Industrias Quimicas Falcon de Mexico (Falcon), one of Roche s manufacturing subsidiaries with facilities located at Cuernavaca, Mexico for a total purchase consideration of U.S.$61.2 million (Rs.2,773.1 million). Falcon was acquired with an intent to add steroid manufacturing capabilities and permit us to offer a full range of services in our custom pharmaceutical services business. Falcon is engaged in the manufacture and sale of APIs, intermediates and steroids and has a portfolio of 18 products. As a result of this acquisition, the financials of Falcon have been consolidated with our custom pharmaceuticals services segment effective as of December 30, 2005.

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Critical Accounting Policies

Critical accounting policies are those most important to the portrayal of our financial condition and results and that require the most exercise of our judgment. We consider the policies discussed under the following paragraphs to be critical for an understanding of our financial statements. Our significant accounting policies and application of these are discussed in detail in Note 2 to the Consolidated Financial Statements.

Accounting estimates

While preparing financial statements we make estimates and assumptions that affect the reported amount of assets, liabilities, disclosure of contingent liabilities at the balance sheet date and the reported amount of revenues and expenses for the reporting period. Financial reporting results rely on our estimate of the effect of certain matters that are inherently uncertain. Future events rarely develop exactly as forecast and the best estimates require adjustments, as actual results may differ from these estimates under different assumptions or conditions. We continually evaluate these estimates and assumptions based on the most recently available information. Specifically, we make estimates of:

the useful life of property, plant and equipment and intangible assets;

impairment of long-lived assets, including identifiable intangibles and goodwill;

our future obligations under employee retirement and benefit plans;

allowances for doubtful accounts receivable;

inventory write-downs;

allowances for sales returns; and

valuation allowance against deferred tax assets.

We depreciate property, plant and equipment over their useful lives using the straight-line method. Estimates of useful life are subject to changes in economic environment and different assumptions. Assets under capital leases are amortized over their estimated useful life or lease term as appropriate. We review long-lived assets, including identifiable intangibles and goodwill, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We measure recoverability of assets to be held and used by comparing the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Considerable management judgment is necessary to estimate discounted future cash flows. Accordingly, actual outcomes could vary significantly from such estimates. Factors such as changes in the planned use of buildings, machinery or equipment or lower than anticipated sales for products with capitalized rights could result in shortened useful lives or impairment.

In accordance with applicable Indian laws, we provide a defined benefit retirement plan (Gratuity Plan) covering certain categories of employees. The Gratuity Plan provides a lump sum payment to vested employees at retirement or termination of employment, in an amount based on the respective employee s last drawn salary and the years of employment with us. Liabilities with regard to the Gratuity Plan are determined by an actuarial valuation, based upon which we make contributions to the Gratuity Fund. In calculating the expense and liability related to the plans, assumptions are made about the discount rate, expected rate of return on plan assets, withdrawal and mortality rates and rate of future compensation increases as determined by us, within certain guidelines. The assumptions used may differ materially from actual results, resulting in a significant impact to the amount of expense recorded by us.

We make allowance for doubtful accounts receivable, including receivables sold with recourse, based on the present and prospective financial condition of the customer and ageing of the accounts receivable after considering historical experience and the current economic environment. Actual losses due to doubtful accounts may differ from the allowances made. However, we believe that such losses will not materially affect our consolidated results of operations.

We provide for inventory obsolescence, expired inventory and inventories with carrying values in excess of realizable values based on our assessment of future demands, market conditions and our specific inventory management initiatives. If the market conditions and actual demands are less favorable than our estimates, additional inventory write-downs may be required. In all cases, inventory is carried at the lower of historical costs or realizable value.

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Revenue recognition

Product sales

Revenue is recognized when significant risks and rewards in respect of ownership of products are transferred to the customer, generally stockists or formulations manufacturers, and when the following criteria are met:

Persuasive evidence of an arrangement exists;

The price to the buyer is fixed and determinable; and

Collectibility of the sales price is reasonably assured.

Revenue from domestic sales of formulation products is recognized on dispatch of the product to the stockist by our consignment and clearing and forwarding agent. Revenue from domestic sales of active pharmaceutical ingredients and intermediates is recognized on dispatch of products to customers from our factories. Revenue from export sales is recognized when significant risks and rewards are transferred to the customer, generally upon shipment of products.

Revenue from product sales includes excise duties and is shown net of sales tax and applicable discounts and allowances.

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

Sales of active pharmaceutical ingredients and intermediates in India are made directly to the end customers, generally formulation manufacturers, from the factories. Sales of formulations and active pharmaceutical ingredients and intermediates outside India are made directly to the end customers, generally stockists or formulations manufacturers, from us or our consolidated subsidiaries.

We have entered into marketing arrangements with certain marketing partners for the sale of goods. Under such arrangements, we sell generic products to our marketing partners at a price agreed in the arrangement. Revenue is recognized on these transactions upon delivery of products to our marketing partners as all the conditions under Staff Accounting Bulletin No.104 (SAB 104) are then met. Subsequently, the marketing partners remit an additional amount upon further sales made by them to the end customer. Such amount is determined as per the terms of the arrangement and is recognized by us when the realization is certain under the guidance given in SAB 104.

We have entered into certain dossier sales, licensing and supply arrangements that include certain performance obligations. Based on an evaluation of whether or not these obligations are inconsequential or perfunctory, we defer the upfront payments received towards these arrangements. Such deferred amounts are recognized in the income statement in the period in which we complete our remaining performance obligations.

Sales of generic products are recognized as revenue when the products are shipped and title and risk of loss passes on to the customer. Provisions for chargeback, rebates and medicaid payments are estimated and provided for in the year of sales and recorded as a reduction of revenue. A chargeback claim is a claim made by the wholesaler for the difference between the price at which the product is initially invoiced to the wholesaler and the net price at which it is agreed to be procured from us. Provision for such chargebacks are accrued and are estimated based on the historical average chargeback rate actually claimed over a period of time, current contract prices with wholesalers and other customers and the wholesaler s average inventory holding. Such provisions are disclosed as a reduction of accounts receivable.

We account for sales returns in accordance with Statement of Financial Accounting Standards (SFAS) No. 48 by establishing an accrual in an amount equal to our estimate of sales recorded for which the related products are expected to be returned.

We deal in various products and operate in various markets and our estimate is determined primarily by our experience in these markets for the products. For returns of established products, we determine an estimate of the sales returns accrual primarily based on our historical experience regarding sales returns. Additionally other factors that we consider in our estimate of sales returns include levels of inventory in the distribution channel, estimated shelf life,

product discontinuances, price changes of competitive products, introductions of generic products and introductions of competitive new products to the extent each of them has an impact on our business and markets. We consider all of these factors and adjust the accrual to reflect actual experience.

In respect of certain markets, we consider the level of inventory in the distribution channel and determine whether an adjustment to our sales return accrual is appropriate. For example, if the level of inventory in the distribution channel increases, we analyze the reasons for the increase and if the reasons indicate that sales returns will be larger than expected, we adjust the sales returns accrual. Further, the products and markets in which we operate have a rapid distribution cycle and therefore products are sold to the ultimate customer within a very short period of time. As a result, the impact of changes in levels of inventory in the distribution channel

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historically has not caused any material changes in our return estimates. Further, we have not had any significant product recalls / discontinuances within our product portfolio, which could potentially require us to make material changes to our estimates.

With respect to new products that we introduce, they are either extensions of an existing line of products or in a general therapeutic category where we have historical experience. Our new product launches have historically been in therapeutic categories where established products exist and are sold either by us or our competitors. We have not yet introduced products in any new therapeutic category where the acceptance of such products is not known. The amount of sales returns for our newly launched products are not significantly different from current products marketed by us, nor are they significantly different from the sales returns of our competitors as we understand them to be based on industry publications and discussions with our customers. Accordingly, we do not expect sales returns for new products to be significantly different than expected sales returns of current products. We evaluate the sales returns of all of the products at the end of each reporting period and necessary adjustments, if any, are made. However, to date, no significant revision has been determined to be necessary.

License fees

Non-refundable milestone payments are recognized in the statement of income when earned, in accordance with the terms prescribed in the license agreement, and where we have no future obligations or continuing involvement pursuant to such milestone payment. Non-refundable up-front license fees are deferred and recognized when the milestones are earned, in proportion that the amount of each milestone earned bears to the total milestone amounts agreed in the license agreement. As the upfront license fees are a composite amount and cannot be attributed to a specific molecule, they are amortized over the development period. The milestone payments during the development period increase as the risk involved decreases. The agreed milestone payments reflect the progress of the development of the molecule and may not be spread evenly over the development period. Further, the milestone payments are a fair representation of the extent of progress made in the development of these molecules. Hence, the upfront license fees are amortized over the development period in proportion to the milestone payments received. In the event, the development is discontinued, the corresponding amount of deferred revenue is recognized in the income statement in the period in which the project is effectively terminated.

Service income

Income from service, which primarily relates to contract research, is recognized as the related services are performed in accordance with the terms of the contract and as all the conditions of SAB 104 are met. Arrangements with customers for contract research and other related services are either on a fixed price, fixed timeframe or a time and material basis.

Stock Based Compensation

We use the Black-Scholes option pricing model to determine the fair value of each option grant. The Black-Scholes model includes assumptions regarding dividend yields, expected volatility, expected lives and risk free interest rates. These assumptions reflect our best estimates, but these assumptions involve inherent market uncertainties based on market conditions generally outside of our control. As a result, if other assumptions had been used in the current period, stock-based compensation expense could have been materially impacted. Furthermore, if we use different assumptions in future periods, stock based compensation expense could be materially impacted in future years.

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

	Fiscal Year Ended March 31,		
	2005	**2006**	**2007**
Dividend yield	0.5%	0.5%	0.5%
Expected life	12-78months	12-78months	12-48months
Risk free interest rates	4.5-6.7%	5.7-7.5%	6.5-7.4%
Volatility	39.4-44.6%	23.4-36.9%	30.5-33.6%

At March 31, 2007, we had four equity -based employee compensation plans, which are described more fully in Section 6.E. under Employee Stock Incentive Plans . Our parent company and our subsidiary, Aurigene Discovery

Technologies Limited, have two equity based employee compensation plans each.

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

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The adoption of SFAS No. 123(R) did not have a material impact on our equity-based compensation expense for the year ended March 31, 2007. Furthermore, we believe that the adoption of SFAS No.123(R) will not have a material impact on our future equity-based compensation expense. As of March 31, 2007, there was approximately Rs.201,490 of total unrecognized compensation cost related to unvested equity-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 3.7 years.

Under SFAS No. 123, we had a policy of recognizing the effect of forfeitures only as they occurred. Accordingly, as required by SFAS No. 123(R), on April 1, 2006, we estimated the number of outstanding instruments which are not expected to vest and recognized an income of Rs.14,806 representing the reversal of compensation cost for such instruments previously recognized in the income statement. For the years ended March 31, 2005, 2006 and 2007, an amount of Rs.144,001, Rs.162,249 and Rs.190,186, respectively, have been recorded as total employee equity-based compensation expense.

Functional Currency

Our foreign subsidiaries have different functional currencies, determined based on the currency of the primary economic environment in which they operate. For subsidiaries that operate in a highly inflationary economy, the functional currency is determined as the Indian rupee. Due to various subsidiaries operating in different geographic locations, a significant level of judgment is involved in evaluating the functional currency for each subsidiary.

In respect of our foreign subsidiaries which market our products in their respective countries/regions, the functional currency has been determined as the Indian rupee, based on an individual and collective evaluation of the various economic factors listed below.

The operations of these foreign subsidiaries are largely restricted to importing finished goods from us in India, sale of these products in the foreign country and remitting the sale proceeds to us. The cash flows realized from sale of goods are readily available for remittance to us and cash is remitted to us on a regular basis. The costs incurred by these subsidiaries are primarily the cost of goods imported from us. The financing of these subsidiaries is done directly or indirectly by us.

In respect of other subsidiaries, the functional currency is determined as the local currency, being the currency of the primary economic environment in which the subsidiary operates.

Income Taxes

As part of the process of preparing our financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. We are subject to tax assessments in each of these jurisdictions. A tax assessment can involve complex issues, which can only be resolved over extended time periods. Additionally, the provision for income tax is calculated based on our assumptions as to our entitlement to various benefits under the applicable tax laws in the jurisdictions in which we operate. The entitlement to such benefits depends upon our compliance with the terms and conditions set out in these laws. Although we have considered all these issues in estimating our income taxes, there could be an unfavorable resolution of such issues that may affect our results of operations.

We also assess the temporary differences resulting from differential treatment of certain items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are recognized in our consolidated financial statements. Deferred taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statement of operations in the period that includes the enactment date. In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. We consider the scheduled reversal of the projected future taxable income and tax planning strategy in making this assessment. If we estimate that the deferred tax assets cannot be realized at the recorded value, a valuation allowance is created with a charge to the statement of income in the period in which such assessment is made.

Litigation

We are involved in various patent challenges, product liability, commercial litigation and claims, investigations and other legal proceedings that arise from time to time in the ordinary course of our business. We assess in consultation with our counsel, the need to accrue a liability for such contingencies and record a reserve when we determine that a loss related to a matter is both probable and

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reasonably estimable. Because litigation and other contingencies are inherently unpredictable, our assessment can involve judgments about future events.

5.A. ***Operating results***

Financial Data

The selected consolidated financial data presented below for fiscal year 2007 reflects first full year consolidation of the acquisition of Falcon and betapharm and therefore the results for fiscal year 2007 are not comparable to the results for prior fiscal years.

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

	Fiscal Year Ended March 31,			
Segment	**2005**	**2006**	**2007**	**2007**
			(Rs. in millions, U.S.$ in thousands)	
Formulations	Rs. 7,822.9	Rs. 9,925.9	Rs. 12,318.9	U.S.$ 285,821
Active pharmaceutical ingredients and intermediates	6,944.5	8,238.0	11,826.8	274,404
Generics	3,577.4	4,055.8	33,224.2	770,863
Critical care and biotechnology	527.1	691.1	823.9	19,116
Drug discovery	288.4		136.8	3,174
Custom pharmaceuticals services	311.6	1,326.8	6,599.8	153,128
Others	47.5	29.4	164.7	3,824
Total revenues	Rs. 19,519.4	Rs. 24,267.0	Rs. 65,095.1	U.S.$ 1,510,327

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

	Fiscal Year Ended March 31,			
Segment	**2005**	**2006**	**2007**	**2007**
			(Rs. in millions, U.S.$ in thousands)	
Formulations	Rs. 2,492.8	Rs. 3,084.1	Rs. 3,651.5	U.S.$ 84,722
Active pharmaceutical ingredients and intermediates	5,013.5	5,916.5	7,242.3	168,035
Generics	1,620.3	2,168.8	18,098.6	419,921
Critical care and biotechnology	176.5	235.9	272.0	6,311
Drug discovery		0.0	121.5	2,819
Custom pharmaceuticals services	82.6	999.4	4,662.5	108,179
Others	0.1	12.6	171.1	3,972
Total cost of revenues	Rs. 9,385.8	Rs. 12,417.3	Rs. 34,219.5	U.S.$ 793,957

The following table sets forth, for the periods indicated, our gross profit by segment:

	Fiscal Year Ended March 31,			
Segment	**2005**	**2006**	**2007**	**2007**
			(Rs. in millions, U.S.$ in thousands)	
Formulations	Rs. 5,330.1	Rs. 6,841.8	Rs. 8,667.4	U.S.$ 201,099.8
Active pharmaceutical ingredients and intermediates	1,931.0	2,321.5	4,584.5	106,369
Generics	1,957.1	1,887.0	15,125.6	350,942
Critical care and biotechnology	350.6	455.2	551.9	12,805

Drug discovery	288.4	0.0	15.3		355
Custom pharmaceuticals services	229.0	327.4	1,937.3		44,949
Others	47.4	16.8	(6.4)		(149)
Total gross margin	Rs. 10,133.6	Rs. 11,849.7	Rs. 30,875.6	U.S.$	716,370

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The following table sets forth, for the periods indicated, financial data as percentages of total revenues and the increase (or decrease) by item as a percentage of the amount over the previous year. Cost of revenues and gross profit by segment are shown as a percentage of that segment s revenues.

	Percentage of Sales Fiscal Year Ended March 31,			Percentage Increase (Decrease)	
	2005	2006	2007	2005 to 2006	2006 to 2007
Income Statement Data:					
Revenues by segment:					
Formulations	40.1	40.9	18.9	26.9	24.1
Active pharmaceutical ingredients and intermediates	35.6	33.9	18.2	18.6	43.6
Generics	18.3	16.7	51.0	13.4	719.2
Diagnostics, critical care and biotechnology	2.7	2.8	1.3	31.1	19.2
Drug discovery	1.5	0.0	0.2	(100.0)	
Custom pharmaceutical services	1.6	5.5	10.1	325.8	397.4
Other	0.2	0.2	0.3	(38.1)	461.1
Total revenues	**100.0**	**100.0**	**100.0**	**24.3**	**168.2**
Cost of revenues by segment:					
Formulations	31.9	31.1	29.6	23.7	18.4
Active pharmaceutical ingredients and intermediates	72.2	71.8	61.2	18.0	22.4
Generics	45.3	53.5	54.5	33.8	734.5
Diagnostics, critical care and biotechnology	33.5	34.1	33.0	33.6	15.3
Drug discovery			88.8		
Custom pharmaceutical services	26.5	75.3	70.6	1,111.4	366.5
Other	0.0	42.8	103.9		1,261.5
Total cost of revenues	**48.1**	**51.2**	**52.6**	**32.3**	**175.6**
Gross profit by segment:					
Formulations	68.1	68.9	70.4	28.4	26.7
Active pharmaceutical ingredients and intermediates	27.8	28.2	38.8	20.2	97.5
Generics	54.7	46.5	45.5	(3.6)	701.6
Diagnostics, critical care and biotechnology	66.5	65.9	67.0	29.8	21.2
Drug discovery	100.0		11.2	(100.0)	
Custom pharmaceutical services	73.5	24.7	29.4	42.9	491.7
Other	100.0	57.2	(3.9)	(64.6)	(137.9)
Total gross profit	**51.9**	**48.8**	**47.4**	**16.9**	**160.6**
Operating expenses:					
Selling, general and administrative expenses	34.7	33.1	21.6	18.5	75.0
Research and development expenses	14.4	8.9	3.8	(23.2)	14.4
Amortization expenses	1.8	1.7	2.4	20.0	274.1
Write-down of intangible assets			2.7		

Foreign exchange (gain)/loss	2.5	0.5	(0.2)	(74.2)	208.2
Other operating expense/(income)	0.0	(1.3)	(0.1)		(79.1)
Total operating expenses	53.4	42.9	30.2	(0.1)	88.8
Operating income	**(1.5)**	**5.9**	**17.2**	**598.8**	**678.4**
Equity in loss of affiliates	(0.3)	(0.4)	(0.1)	51.9	(29.0)
Other (expense) / income, net	2.3	2.2	(1.0)	17.5	224.0
Income before income taxes and minority interest	**0.5**	**7.8**	**16.1**	**1,663.4**	**456.4**
Income tax benefit / (expenses)	0.5	(1.1)	(1.8)	374.1	355.5
Minority interest	0.1				
Net income	**1.1**	**6.7**	**14.3**	**671.1**	**472.6**

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Fiscal Year Ended March 31, 2007 Compared to Fiscal Year Ended March 31, 2006

Revenues

Total revenues increased by 168.2% to Rs.65,095.1 million in fiscal 2007, as compared to Rs.24,267.0 million in fiscal 2006, primarily due to revenues from sales of authorized generics, revenues from Falcon (acquired December 30, 2005) and betapharm (acquired March 3, 2006), and an increase of revenues across our other business segments. Excluding revenues from sales of authorized generics and revenues from Falcon and betapharm, revenues increased by 57.7% to Rs.35,881.2 million in fiscal 2007. In fiscal 2007, we received 43.5% of our revenues from North America (United States and Canada), 14.1% of our revenues from India, 7.3% of our revenues from Russia and other countries of the former Soviet Union, 22.8% of our revenues from Europe and 12.3% of our revenues from other countries.

Revenues from sales to Russia and other former Soviet Union countries increased by 33.5% to Rs.4,752.0 million in fiscal 2007, as compared to Rs.3,559.5 million in fiscal 2006. The increase was primarily due to an increase in sales of our major brands such as Nise, our brand of nimesulide, Keterol, our brand of ketorolac tromethamine, Ciprolet, our brand of ciprofloxacin, Cetrine, our brand of cetrizine, and Omez, our brand of omeprazole. Revenues from sales in India increased by 11.0% to Rs.9,178.6 million in fiscal 2007, as compared to Rs.8,272.5 million in fiscal 2006, primarily due to an increase in revenues in our formulations segment and partially offset by a decline in revenues of our active pharmaceutical ingredients and intermediates segment. Revenues from sales to Europe increased by 243.0% to Rs.14,839.1 million in fiscal 2007, as compared to Rs.4,326.4 million in fiscal 2006, primarily as a result of an increase in revenues from sales in our generics, custom pharmaceuticals services and API segments, as well as revenues from betapharm. Revenues from sales to North America increased by 611.3% to Rs.28,336.5 million in fiscal 2007, as compared to Rs.3,983.9 million in fiscal 2006. Excluding the revenues from sale of authorized generics, revenues increased by 214.4% to Rs.12,523.7 in fiscal 2007, primarily due to increases in sales in our generics, CPS and API segments.

Formulations. In fiscal 2007, we received 18.9% of our total revenues from the formulations segment, as compared to 40.9% in fiscal 2006. Revenues in this segment increased by 24.1% to Rs.12,318.9 million in fiscal 2007, as compared to Rs.9,925.9 million in fiscal 2006.

Revenues in India constituted 52.1% of our total formulations revenues in fiscal 2007 as compared to 55.7% in fiscal 2006. Revenues from sales of formulations products in India increased by 16.1% to Rs.6,415.0 million in fiscal 2007, as compared to Rs.5,525.7 million in fiscal 2006. This was driven by increased sales volumes of our key brands such as Omez, our brand of omeprazole, Nise, our brand of nimesulide, Stamlo, our brand of amlodipine, Razo, our brand of rabeprazole, and Recliment, our brand of gliclazide and metformin. The revenue increases were led by special marketing initiatives and other product specific initiatives and focused promotion with specialist physicians. The revenue increases were also attributable to the launch of extensions of current product lines such as Omez D and Razo D. New products launched in fiscal 2007 contributed revenues of Rs.247 million (4% of revenues in India).

Revenues from sales of formulations products outside India increased by 34.2% to Rs.5,903.9 million in fiscal 2007, as compared to Rs.4,400.3 million in fiscal 2006. Revenues from sales of formulations products in Russia accounted for 59.2% of our formulation revenues outside India in fiscal 2007, as compared to 58.7% in fiscal 2006. Revenues from sales of formulations products in Russia increased by 35.3% to Rs.3,494.3 million in fiscal 2007, as compared to Rs.2,583.1 million in fiscal 2006. The increase was primarily due to an increase in revenues from the sale of key brands such as Nise, our brand of nimesulide, Omez, our brand of omeprazole, and Cetrine, our brand of cetrizine. This increase in revenues was primarily driven by an increase in our sales volumes to hospitals, as well as increased prescription sales due to various advertising campaigns. Revenues from sales to other countries of the former Soviet Union increased by 35.2% to Rs.1,117.6 million for fiscal 2007, as compared to Rs.826.8 million for fiscal 2006, primarily driven by an increase in revenues from sales in Ukraine, Uzbekistan and Kazakhstan.

Revenues from sales of formulations products in Europe increased by 45.3% to Rs.376.6 million in fiscal 2007 as compared to Rs.259.2 million in fiscal 2006, primarily due to an increase in revenues from sales in Romania. The increase in revenues from Romania was primarily due to an increase in sales volume attributable to an increase in Romanian government spending on medical reimbursement to comply with EU standards, as well as promotional campaigns.

Revenues from sales to the rest of the world increased by 25.2% to Rs.915.3 million in fiscal 2007, as compared to Rs.731.1 million in fiscal 2006. This increase was primarily due to an increase in revenues from sales of products in South Africa, Myanmar, Venezuela and Jamaica, and was offset by a decrease in revenues from sales of products in Vietnam.

Active Pharmaceutical Ingredients and Intermediates. In fiscal 2007, we received 18.2% of our total revenues from this

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segment, as compared to 33.9% in fiscal 2006. Revenues in this segment increased by 43.6% to Rs.11,826.8 million in fiscal 2007, as compared to Rs.8,238.0 million in fiscal 2006.

During fiscal 2007, revenues from sales in India accounted for 17.5% of our revenues from this segment, as compared to 27.9% in fiscal 2006. Revenues from sales in India decreased by 9.6% to Rs.2,075.0 million in fiscal 2007, as compared to Rs.2,296.4 million in fiscal 2006. This decrease was primarily due to a decrease in revenues from sales of quinolones (antibiotics), due to a significant decline in prices resulting from increased competition.

Revenues from sales outside India increased by 64.1% to Rs.9,751.8 million in fiscal 2007, as compared to Rs.5,941.6 million in fiscal 2006. Revenues from sales in Europe increased by 47.0% to Rs.2,089.4 million in fiscal 2007, as compared to Rs.1,420.9 million in fiscal 2006, primarily due to an increase in revenues from sales of sertraline, finasteride, losartan and ramipril. Revenues from sales of API in North America (United States and Canada) increased by 22.6% to Rs.2,029.6 million in fiscal 2007, as compared to Rs.1,655.0 million in fiscal 2006, primarily due to an increase in sales volumes of naproxen sodium, ibuprofen, naproxen and sertraline, as well as increase in sales volumes of API used by our customers in the development of their formulations. Revenues from sales of API in the rest of the world increased from Rs.2,865.8 million in fiscal 2006 to Rs.5,632.7 in fiscal 2007, driven primarily by the growth of revenues from Israel, South Korea, Brazil and Japan.

Generics. In fiscal 2007, we received 51.0% of our total revenues from this segment, as compared to 16.7% in fiscal 2006. This segment s revenues increased by 719.2% to Rs.33,224.2 million in fiscal 2007, as compared to Rs.4,055.8 million in fiscal 2006. Revenues from sales of products in North America increased to Rs.23,619.4 million in fiscal 2007, as compared to Rs.1,630.6 million in fiscal 2006. The increase was primarily due to revenues of Rs.15,812.8 million from sales of simvastatin and finasteride (our authorized generic versions of Merck s Zocor® and Proscar®, respectively), launched in June 2006; revenues of Rs.2,429.3 million from sales of fexofenadine (our generic version of Allegra ®), launched in April 2006; and revenues of Rs.2,890.1 million from sales of ondansetron (our generic version of Zofran®), launched at the end of December 2006 with 180 day marketing exclusivity. Excluding revenues from authorized generics, fexofenadine and ondansetron, revenues from sales of generic products increased by 52.5% to Rs.2,487.1 million, primarily on account of an increase in sales volumes as well as the launch of new products, such as pravastatin and simvastatin (a non-authorized generic product).

Revenues from sales of generic products in Europe and other markets increased by 296.6% to Rs.9,604.8 million in fiscal 2007, as compared to Rs.2,425.2 million in fiscal 2006. Revenues of betapharm (in its first full year of consolidation) and sales of products acquired from Litaphar in Spain (in fiscal 2007) together contributed Rs.8,065.0 million to revenues in fiscal 2007, as compared to revenues contributed by betapharm of Rs.704.9 million in fiscal 2006 (which represented less than one month of revenues, as it was acquired on March 3, 2006 and the fiscal year ended March 31, 2006). In the United Kingdom, we experienced a decline in the prices of some of our key generics products, amlodipine and omeprazole. As a result, our U.K. generics revenues declined by 10.5% to Rs.1,539.8 million in fiscal 2007 from Rs.1,716.6 million in fiscal 2006.

Custom Pharmaceutical Services. Revenues from custom pharmaceutical services, including revenues from our subsidiary Falcon, grew to Rs.6,599.8 million in fiscal 2007 as compared to Rs.1,326.8 million in fiscal 2006. Revenues contributed from Falcon increased from Rs.804.9 in fiscal 2006 (this represents approximately three months of revenues, as it was acquired on December 30, 2005 and the fiscal year ended March 31, 2006) to Rs.5,396.8 million (this represents the first full year of consolidation of Falcon s revenues). Revenues in Falcon were driven by sales of naproxen sodium, naproxen and epoxide. Excluding revenues from Falcon, revenues in this segment grew to Rs.1,203.0 million in fiscal 2007, from Rs.521.9 in fiscal 2006, driven by growth in our customer base and product portfolio.

Critical Care and Biotechnology. We received 1.3% of our total revenues from this segment in fiscal 2007, as compared to 2.8% in fiscal 2006. Revenues in this segment increased to Rs.823.9 million in fiscal 2007, as compared to Rs.691.1 million in fiscal 2006.

Revenues from our critical care division increased to Rs.642.9 million in fiscal 2007 from Rs.517.51 in fiscal 2006, primarily on account of an increase in revenues from sales in India of key products such as Dacotin, our brand of oxaliplatin, Docetere, our brand of docetaxel, and Mitotax, our brand of paclitaxel. Revenues from our biotechnology division increased to Rs.181.01 million in fiscal 2007 from Rs.173.56 million, primarily due to growth in sales

volumes of Grastim, our brand of filgrastim.

Cost of revenues

Total cost of revenues increased by 175.6% to Rs.34,219.5 million for fiscal 2007, as compared to Rs.12,417.3 million for fiscal 2006. As a percentage of total revenues, total cost of revenues was 52.6% for fiscal 2007, as compared to 51.2% for fiscal 2006.

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Formulations. Cost of revenues in this segment increased by 18.4% to Rs.3,651.5 million in fiscal 2007, as compared to Rs.3,084.1 million in fiscal 2006. Cost of revenues in this segment was 29.6% of revenues for fiscal 2007, as compared to 31.1% of revenues for fiscal 2006. As a percentage of revenues, cost of revenues decreased by 1.5% primarily on account of a decrease in excise duties in fiscal 2007. This decrease in excise duties was due to our new formulations facility at Baddi (operational from July 2006), which enjoys excise duty exemption.

Active Pharmaceutical Ingredients and Intermediates. Cost of revenues increased by 22.4% to Rs.7,242.3 million in fiscal 2007, as compared to Rs.5,916.5 million in fiscal 2006. Cost of revenues in this segment as a percentage of revenue decreased to 61.2% of this segment s revenues in fiscal 2007, as compared to 71.8% of this segment s revenues in fiscal 2006. One reason for this decrease was an increase in the proportion of higher margin revenues from sales outside of India from 72.1% of total revenues in fiscal 2006 to 82.5% of total revenues in fiscal 2007. Another reason for this decrease was an increase of sales of high gross margin products, such as our generic version of sertraline (launched in June, 2006).

Generics. Cost of revenues in this segment increased by 734.5% to Rs.18,098.6 million in fiscal 2007, as compared to Rs.2,168.8 million in fiscal 2006. Cost of revenue was 54.5% of this segment s revenues in fiscal 2007, as compared to 53.5% in fiscal 2006. The increase in cost of revenues as a percentage of sales in this segment was primarily as a result of revenues from newly launched authorized generics, which contributed 47.6% to total revenues of this segment and have gross margins which are significantly below the average gross margin of this segment. The increase in cost of revenues associated with sales of these lower margin products was substantially offset by increased sales of ondansetron and fexofenadine, which have gross margins which are significantly above the average gross margin of this segment.

Custom Pharmaceutical Services. Cost of revenues in this segment increased by 366.5% from Rs.999.4 million in fiscal 2006 (this represents approximately three months of revenues from Falcon, as it was acquired on December 30, 2005 and the fiscal year ended March 31, 2006) to Rs.4,662.5 million in fiscal 2007 (this represents the first full year of consolidation of the cost of Falcon s revenues). Cost of revenues was 70.6% of this segment s revenues in fiscal 2007, as compared to 75.3% in fiscal 2006. This decrease was primarily on account of increased sales of naproxen sodium and naproxen, which are higher margin products.

Gross profit

As a result of the trends described in Revenues and Cost of revenues above, our gross profit increased by 160.6% to Rs.30,875.6 million for fiscal 2007 from Rs.11,849.7 million for fiscal 2006. Gross margin percentage was 47.4% in fiscal 2007, as compared to 48.8% in fiscal 2006.

Gross profit of the formulations segment increased to 70.4% in fiscal 2007, as compared to 68.9% in fiscal 2006. The gross profit for our active pharmaceutical ingredients segment increased to 38.8% in fiscal 2007, as compared to 28.2% in fiscal 2006. The gross profit for our generics segment decreased to 45.5% in fiscal 2007, as compared to 46.5% in fiscal 2006. The gross profit for our custom pharmaceutical services segment was 29.4% in fiscal 2007, as compared to 24.7% in fiscal 2006.

Selling, general and administrative expenses

Selling, general and administrative expenses, as a percentage of total revenues, were 21.6% for fiscal 2007 as compared to 33.1% for fiscal 2006. The decrease in these expenses as a percentage of revenues was due to an increase in our total revenues with no commensurate increase in costs. Selling, general and administrative expenses increased by 75.0% to Rs.14,051.1 million in fiscal 2007, as compared to Rs.8,028.9 million in fiscal 2006.

The increase in selling, general and administrative expenses as a whole was largely due to the full year consolidation of expenses of betapharm and Falcon, as well as an increase in employee costs and marketing costs. After excluding expenses of betapharm and Falcon, employee costs increased by 41.1% in fiscal 2007, primarily due to annual compensation increases and market corrections as well as an increase in the number of employees. Marketing expenses increased by 33.2% in fiscal 2007, primarily on account of higher selling expenses and higher shipping costs, all incurred in connection with the increase in total revenues.

Research and development expenses

Research and development costs increased by 14.4% to Rs.2,462.7 million for fiscal 2007, as compared to Rs.2,153.0 million for fiscal 2006. As a percentage of total revenue, research and development expenses were 3.8% of

our total revenue in fiscal 2007 as compared to 8.9% in fiscal 2006.

Under the terms of our research and development partnership agreement with I-VEN Pharma Capital Limited (I-VEN), we

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received Rs.985.4 million (U.S.$22.5 million) in March 2005 to be applied to research and development costs in our generics segment, of which Rs.452.8 million (U.S.$10.5 million) was recorded as a reduction in the research and development expense line item in fiscal 2007 as compared to Rs.384.5 million (U.S.$8.6 million) recognized in fiscal 2006. Furthermore, in fiscal 2007, our research and development expenses in our drug discovery segment were lower on account of our receipt of Rs.372.6 million from Perlecan Pharma Private Limited (Perlecan) as reimbursement of expenses incurred by us in the development of New Chemical Entities (NCEs) assigned to Perlecan under the terms of our research and development partnership agreement. This reimbursement payment was recorded as a reduction in research and development expenses. Excluding the impact of the above arrangements with I-VEN and Perlecan, expenses increased to Rs.3,288.1 million in fiscal 2007 as compared to Rs.2,537.5 million in fiscal 2006. The increase in expenses was primarily on account of an increase in product development studies in our formulations and generics segments, as well as an increase in clinical trials expenses in our discovery segment.

Amortization expenses

Amortization expenses increased by 274.1% to Rs.1,570.9 million in fiscal 2007 from Rs.419.9 million in fiscal 2006. The increase was primarily on account of amortization of intangibles acquired in the acquisition of betapharm and Falcon amounting to Rs.1,247.8 million and Rs.26.8 million, respectively, in fiscal 2007.

Write-down of Intangible Assets

During fiscal 2007, we wrote-down certain intangible assets in an aggregate amount of Rs.1,770.2 million. These write-downs primarily consisted of :

Write-down expense amounting to Rs.213.5 million associated with core technology rights and other product related intangible assets acquired through Trigenesis Therapeutics, Inc. During the fourth quarter ended March 31, 2007, we completed our detailed review of business opportunities against each of the core technology rights, licenses and marketing rights. As a result of this review, we determined that the further commercialization of the intangible assets that are being carried forward may not be economically viable because of further regulatory and approval process requirements and unfeasible partnering prospects, and therefore discontinued our efforts to further develop these assets.

Due to legislative reforms in Germany designed to control healthcare spending, including the WSG and the AVWG, severe pricing pressures thereafter, and impact of the Salutas contract amendment, certain of our product-related intangibles faced loss in economic value. Consequently, based on a detailed review carried out by management, an impairment provision of Rs.1,556.7 million was recorded in the current year financial statements.

Foreign exchange gain/loss

Foreign exchange gain was Rs.136.8 million for fiscal 2007, as compared to a loss of Rs.126.3 million for fiscal 2006. In fiscal 2007, the rupee appreciated by 2.57%. The fiscal 2007 foreign exchange gain was primarily on account of our marking to market of our outstanding forward foreign exchange contracts (entered into in order to hedge our receivables exchange risk) and foreign currency loans, which gains were partially offset by our marking to market of our U.S.$ deposits and receivables. In contrast to this, the rupee depreciated by 1.99% in fiscal 2006. Foreign exchange loss in fiscal 2006 was primarily on account of our marking to market of our forward foreign exchange contracts and foreign currency loans.

Other operating expense/(income), net

Other operating income, net, amounted to Rs.67.0 million in fiscal 2007, as compared to Rs.320.4 million in fiscal 2006. This includes a profit of Rs.387.3 million in fiscal 2006 resulting from the sale of our finished dosages manufacturing facility located in Goa, India.

Operating income

As a result of the foregoing, our operating income was Rs.11,224.4 million in fiscal 2007, as compared to operating income of Rs.1,442.0 million in fiscal 2006. Operating income as a percentage of total revenues was 17.2% in fiscal 2007, as compared to 5.9% in fiscal 2006.

Other income (expense), net

For fiscal 2007, our net other expense was (Rs.661.5 million), as compared to net other income of Rs.533.6 million for fiscal 2006.

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This was primarily on account of net interest expense of Rs.1,054.7 million in fiscal 2007 compared to net interest income Rs.418.8 million in fiscal 2006. Net interest expense was primarily on account of interest expense incurred on a loan in the original principal amount of 400 million (Rs.21,598.30 million) taken for the acquisition of betapharm in fiscal 2006, partially offset by interest income on fixed deposits.

Equity in loss of affiliates

Equity in loss of affiliates was Rs.62.7 million for fiscal 2007, a decline from Rs.88.2 million for fiscal 2006. The fiscal 2007 loss consists of a loss pick-up from Perlecan Pharma Private Limited of Rs.63.3 million offset by a gain pick-up from Kunshan Rotam Reddy Pharmaceuticals of Rs.0.7 million. In fiscal 2006, equity in loss of affiliates consisted of a Rs.40.0 million loss pick-up from Perlecan Pharma Private Limited plus a Rs.48.2 million loss pick-up from Kunshan Rotam Reddy Pharmaceuticals.

Income before income taxes and minority interest

As a result of the foregoing, income before income taxes and minority interest increased to Rs.10,500.3 million in fiscal 2007, as compared to Rs.1,887.3 million in fiscal 2006. As a percentage of revenues, income before income taxes and minority interest was 16.1% of revenues in fiscal 2007, as compared to 7.8% of revenues in fiscal 2006.

Income tax expense

Income tax expense for fiscal 2007 was Rs. 1,176.9 million as compared to an income tax expense of Rs. 258.4 million for fiscal 2006. As a percentage of income before taxes and minority interest, income tax expense decreased from 13.7% for fiscal 2006 to 11.2% for fiscal 2007. In absolute terms, the income tax expense increased primarily a result of significantly higher income from operations in fiscal 2007 as compared to fiscal 2006. The effective tax rate decreased primarily on account of increased sales in generics business, which in India enjoys tax exemptions. Further, whilst a significant portion of the increased profitability has been out of North America generics operations, the corresponding tax expense has been lower since the business had net operating losses, which were utilized in the current year. The Company had recorded a full valuation allowance on the deferred tax assets on net operating losses, which was reversed in the current year.

Minority interest

Minority interest for fiscal 2007, was a gain of Rs.3.5 million resulting from the allocation of our minority s share in the losses of Dr. Reddy s Laboratories (Proprietary) Limited, our partially owned subsidiary in South Africa. During fiscal 2006, we realized a loss of Rs.0.1 million representing our minority share in the profits of this partially owned subsidiary.

Net income

As a result of the above factors, our net income increased to Rs.9,326.8 million in fiscal 2007, as compared to Rs.1,628.9 million in fiscal 2006. Net income as a percentage of total revenues increased to 14.3% in fiscal 2007 from 6.7% in fiscal 2006.

Fiscal Year Ended March 31, 2006 Compared to Fiscal Year Ended March 31, 2005

Revenues

Total revenues increased by 24.3% to Rs.24,267.0 million in fiscal 2006, as compared to Rs.19,591.4 million in fiscal 2005, primarily due to an increase in revenues in our formulations segment and our active pharmaceutical ingredients and intermediates segment, as well as new revenues contributed by our recently acquired subsidiaries, Falcon in Mexico (starting December 30, 2005) and betapharm in Germany (starting March 3, 2006). Excluding revenues from Falcon and betapharm, revenues increased by 16.6% to Rs.22,758.2 million. betapharm contributed Rs.704.9 million and Falcon contributed Rs.804.0 million to our revenues for fiscal 2006. In fiscal 2006, we received 16.4% of our revenues from North America (United States and Canada), 34.1% of our revenues from India, 14.7% of our revenues from Russia and other countries of the former Soviet Union, 17.8% of our revenues from Europe and 17.0% of our revenues from other countries.

Revenues from sales to Russia and other former Soviet Union countries increased by 27.9% to Rs.3,559.5 million in fiscal 2006, as compared to Rs.2,782.2 million in fiscal 2005. The increase was primarily due to an increase in sales of our major brands such as Nise, our brand of nimesulide, Keterol, our brand of ketorolac tromethamine, Ciprolet, our brand of ciprofloxacin, and Omez, our brand of omeprazole. Revenues from sales in India increased by 23.6% to Rs.8,272.5 million in fiscal 2006, as

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compared to Rs.6,693.0 million in fiscal 2005, primarily due to an increase in revenues in our formulations and active pharmaceutical ingredients and intermediates segments. Revenues from sales to Europe increased by 50.8% to Rs.4,326.3 million in fiscal 2006, as compared to Rs.2,868.2 million in fiscal 2005, primarily as a result of an increase in revenues from sales in our generics segment and active pharmaceutical ingredients and intermediates segment, as well as new revenues contributed from betapharm. Excluding betapharm revenues, revenues from sales to Europe increased by 26.3% to Rs.3,621.4 million in fiscal 2006. Revenues from sales to North America decreased by 8.4% to Rs.3,983.9 million in fiscal 2006, as compared to Rs.4,349.2 million in fiscal 2005, primarily due to a decrease in sales in our generics segment and active pharmaceutical ingredients and intermediates segment.

Formulations. In fiscal 2006, we received 40.9% of our total revenues from the formulations segment, as compared to 40.1% in fiscal 2005. Revenues in this segment increased by 26.9% to Rs.9,925.9 million in fiscal 2006, as compared to Rs.7,822.9 million in fiscal 2005.

Revenues in India constituted 55.7% of our total formulations revenues in fiscal 2006, which is the same percentage it constituted in fiscal 2005. Revenues from sales of formulations in India increased by 26.7% to Rs.5,525.7 million in fiscal 2006, as compared to Rs.4,360.2 million in fiscal 2005. This was driven by an increase in revenues from increased sales volumes of our key brands such as Omez, our brand of omeprazole, Nise, our brand of nimesulide, Stamlo our brand of amlodipine, and Recliment, our brand of gliclazide and metformin. The increase was also attributable to our focused marketing strategy, in which we reorganized our Indian sales force by therapeutic categories, as well as the positive impact of inventory restocking by stockists and retailers after implementation of India s Value Added Tax system in April 2005.

Revenues from sales of formulations outside India increased by 27.1% to Rs.4,400.3 million in fiscal 2006, as compared to Rs.3,462.7 million in fiscal 2005. Revenues from sales of formulations in Russia accounted for 58.7% of our formulation revenues outside India in fiscal 2006, as compared to 60.9% in fiscal 2005. Revenues from sales of formulations in Russia increased by 22.6% to Rs.2,583.1 million in fiscal 2006, as compared to Rs.2,107.2 million in fiscal 2005. The increase was primarily due to an increase in sales volumes as a result of marketing activities as well as the Russian government s implementation in January 2005 of the Dopolnitelnoye Lekarstvennoye Obespechenoye (DLO) program pursuant to which the Russian government purchases drugs for free distribution to low income individuals. Revenues from sales to other countries of the former Soviet Union increased by 39.4% to Rs.826.8 million for fiscal 2006 as compared to Rs.593.3 million for fiscal 2005, primarily driven by an increase in revenues in the Ukraine and Kazakhstan. Revenues from sales to the rest of the world increased by 19.2% to Rs.731.1 million in fiscal 2006, as compared to Rs.613.1 million in fiscal 2005. This increase was primarily due to higher revenues from sales to South Africa, Myanmar, Vietnam and Jamaica and was offset by a decrease in revenues from sales to Venezuela and Sri Lanka.

Active Pharmaceutical Ingredients and Intermediates. In fiscal 2006, we received 33.9% of our total revenues from this segment as compared to 35.6% in fiscal 2005. Revenues in this segment increased by 18.6% to Rs.8,238.0 million in fiscal 2006, as compared to Rs.6,944.5 million in fiscal 2005.

During fiscal 2006, revenues from sales in India accounted for 27.8% of our revenues from this segment, as compared to 28.4% in fiscal 2005. Revenues from sales in India increased by 16.1% to Rs.2,296.4 million in fiscal 2006, as compared to Rs.1,972.1 million in fiscal 2005. This increase was primarily due to an increase in sales volumes of ciprofloxacin, sparfloxacin and ranitidine as well as an increase in the sales price of ciprofloxacin.

Revenues from sales outside India increased by 19.5% to Rs.5,941.7 million in fiscal 2006, as compared to Rs.4,972.5 million in fiscal 2005. Revenues from sales in Europe increased by 30.2% to Rs.1,420.9 million in fiscal 2006, as compared to Rs.1,091.2 million in fiscal 2006, primarily due to an increase in revenues from new product launches. Revenues from sales in North America (United States and Canada) decreased by 10.5% to Rs.1,655.0 million in fiscal 2006, as compared to Rs.1,849.0 million in fiscal 2005, primarily due to a decrease in sales of ranitidine Hcl Form 1. Revenues from sales in the rest of the world increased from Rs.2,032.3 million in fiscal 2005 to Rs.2,865.7 in fiscal 2006, driven primarily by the growth of sales in Israel, Turkey, Mexico and Brazil.

Generics. In fiscal 2006, we received 16.7% of our total revenues from this segment, as compared to 18.3% in fiscal 2005. This segment s revenues, including revenues contributed by betapharm (starting March 3, 2006), increased by 13.4% to Rs.4,055.8 million in fiscal 2006, as compared to Rs.3,577.4 million in fiscal 2005. Excluding revenues

contributed by betapharm, this segment s revenues declined by 6.3% to Rs.3,350.8 million. Revenues from sales in North America (United States and Canada) decreased by 26.9% to Rs.1,630.6 million in fiscal 2006, as compared to Rs.2,230.1 million in fiscal 2005. This was primarily on account of a decrease in prices of tizanidine and fluoxetine due to increased competition. Together, these products contributed Rs.437.8 million in revenue in fiscal 2006, as compared to Rs.1,134.7 million in fiscal 2005. This decline was partially offset by the revenues from new product launches of glimpiride and zonisamide as well as an increase in sales of ibuprofen and naproxen. The benefit of high pricing in omeprazole and amlodipine was more than offset by a decline in revenues from sales of key products in North America. Revenues from sales in Europe increased by 80.8% to Rs.2,421.5 million in fiscal 2006, as compared to Rs.1,339.6 million in fiscal 2005. Revenues contributed by betapharm (starting March 3, 2006) of Rs.704.9 million have been included in this segment s fiscal 2006 revenues. Excluding revenues contributed by betapharm, revenues from sales in Europe increased by 28.1% to Rs.1,716.6 million in

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fiscal 2006 primarily due to growth of sales volume and higher pricing of omeprazole and amlodipine maleate in the U.K. market.

Critical Care and Biotechnology. We received 2.8% of our total revenues from this segment in fiscal 2006, as compared to 2.7% in fiscal 2005. Revenues in this segment increased to Rs.691.1 million in fiscal 2006, as compared to Rs.527.1 million in fiscal 2005.

Revenues from our critical care division increased by Rs.109.6 million in fiscal 2006, primarily on account of an increase in revenues from sales in India of key products such as Dacotin, our brand of oxaliplatin, Docetere, our brand of docetaxel, and Mitotax, our brand of paclitaxel. Revenues from our biotechnology division increased by Rs.54.4 million in fiscal 2006, primarily due to growth in sales volumes of Grastim, our brand of filgrastim.

Discovery Research. There were no revenues from discovery research in fiscal 2006, as compared to Rs.288.4 million in fiscal 2005 (which was attributable to the recognition of Rs.235.6 million from Novartis Pharma A.G. and Rs.52.8 million from Novo Nordisk as the result of termination of license agreements with both of these companies)

Custom Pharmaceutical Services. Revenues from custom pharmaceutical services, including revenues from our recently acquired subsidiary Falcon, grew to Rs.1,326.8 million in fiscal 2006 as compared to Rs.311.6 million in fiscal 2005. Excluding revenues from Falcon, revenues grew by 67.8% to Rs.522.8 million driven by growth in our customer base and product portfolio.

Others. Revenues from our other businesses (consisting of service income in Aurigene Discovery Technologies Limited) were Rs.29.4 million in fiscal 2006 as compared to Rs.47.5 million in fiscal 2005.

Cost of revenues

Cost of revenues increased by Rs.3,031.6 million to Rs.12,417.4 million for fiscal 2006, as compared to Rs.9,385.8 million for fiscal 2005. As a percentage of total revenues, cost of revenues was 51.2% for fiscal 2006, as compared to 48.1% for fiscal 2005. Excluding revenues and cost of revenues from betapharm and Falcon, cost of revenues increased by Rs.1,987.9 million to Rs.11,373.8 million, which was 50% of total revenues for fiscal 2006, as compared to 48.1% for fiscal 2005.

Formulations. Cost of revenues in this segment was 31.1% of revenues for fiscal 2006, as compared to 31.9% of revenues for fiscal 2005. Cost of revenues increased by 23.7% to Rs.3,084.1 million in fiscal 2006, as compared to Rs.2,492.8 million in fiscal 2005 which is roughly in line with our overall increase in this segment s revenues.

Active Pharmaceutical Ingredients and Intermediates. Cost of revenues in this segment decreased to 71.8% of this segment s revenues in fiscal 2006, as compared to 72.2% of the segment s revenues in fiscal 2005. Cost of revenues increased by 18.0% to Rs.5,916.6 million in fiscal 2006, as compared to Rs.5,013.5 million in fiscal 2005. The decrease in cost of revenues as a percentage of revenues was primarily due to an overall increase in sales.

Generics. Cost of revenues, including revenues from betapharm, was 53.5% of this segment s revenues in fiscal 2006, as compared to 45.3% in fiscal 2005. Cost of revenues increased by 33.8% to Rs.2,168.8 million in fiscal 2006, as compared to Rs.1,620.3 million in fiscal 2005. The increase in cost of revenues as a percentage of sales in this segment was primarily as a result of a decline in average price realization in our U.S. generics businesses due to continued pricing pressure.

Critical Care and Biotechnology. Cost of revenues in this segment increased to 34.1% of this segment s revenues in fiscal 2006, as compared to 33.5% in fiscal 2005. Cost of revenues increased by 33.6% to Rs.235.9 million in fiscal 2006, as compared to Rs.176.5 million in fiscal 2005. The increase was due to a decrease in prices of key products as well as an increase in production overhead costs.

Custom Pharmaceutical Services. Cost of revenues in this segment increased from Rs.82.6 million to Rs.999.4 million primarily as a result of the acquisition of Falcon, which is included within this segment. The cost of revenue as a percentage of revenue was at 75.3% as compared to 26.5% in the previous year. This increase was primarily a result of increased sales of API products having lower margins.

Gross profit

As a result of the trends described in Revenues and Cost of revenues above, our gross profit, including profit from betapharm and Falcon, increased by 16.9% to Rs.11,849.6 million for fiscal 2006 from Rs.10,133.6 million during fiscal 2005. Excluding profit from betapharm and Falcon, gross profit increased by 12.3% to Rs.11,384.4 million for

fiscal 2006. Gross margin percentage was

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48.8% in fiscal 2006, as compared to 51.9% in fiscal 2005.

Gross margin of the formulations segment increased to 68.9% in fiscal 2006, as compared to 68.1% in fiscal 2005. The gross margin for our active pharmaceutical ingredients segment increased to 28.2% in fiscal 2006, as compared to 27.8% in fiscal 2005. The gross margin for our generics segment decreased to 46.5% in fiscal 2006, as compared to 54.7% in fiscal 2005. The gross margin for our critical care and biotechnology segment was 65.9% in fiscal 2006, as compared to 66.5% in fiscal 2005. The gross margin for our custom pharmaceutical services segment reduced to 24.7% in fiscal 2006, as compared to 73.5% in fiscal 2005.

Selling, general and administrative expenses

Selling, general and administrative expenses, including expenses of betapharm and Falcon, increased by 18.5% to Rs.8,028.9 million in fiscal 2006, as compared to Rs.6,774.6 million in fiscal 2005. Excluding expenses of betapharm and Falcon, selling, general and administrative expenses increased 13.4% to Rs.7,687.4 million for fiscal 2006. Selling, general and administrative expenses, including expenses of betapharm and Falcon, as a percentage of revenues were 33.1% for fiscal 2006 as compared to 34.7% for fiscal 2005.

The increase in selling, general and administrative expenses as a whole was largely due to an increase in employee costs as well as marketing costs, largely offset by a decrease in legal and professional expenses. Employee costs increased by 18.0% primarily due to annual compensation increases and market corrections as well as an increase in the number of employees. Marketing expenses increased by 36.0% primarily on account of higher selling expenses and higher shipping costs. Legal and professional expenses decreased by 10.6% primarily due to lower legal and consultancy activity in fiscal 2006.

Research and development expenses

Research and development costs decreased by 23.2% to Rs.2,153.0 million for fiscal 2006, as compared to Rs.2,803.3 million for fiscal 2005. The acquisitions of betapharm and Falcon did not have any significant impact on research and development expenditure. As a percentage of revenue, research and development expenses were 8.9% of our total revenue in fiscal 2006 as compared to 14.4% in fiscal 2005. The decrease was primarily on account of lower research and development costs in our drug discovery segment and lower research and development costs in our generics segment, which includes costs for research and development related to our specialty pharmaceuticals business, offset by an increase in expenses in our formulations, biotechnology and CPS segments. Under the terms of the research and development partnership agreement with I-VEN Pharma Capital Limited, we received Rs.985.4 million (U.S.$22.5 million) in March 2005 to be applied to research and development costs in our generics segment, of which Rs.384.5 million (U.S.$8.6 million) was recorded as a reduction in the research and development expense line item in fiscal 2006 as compared to Rs.96.2 million (U.S.$2.2 million) recognized in fiscal 2005.

Amortization expenses

Amortization expenses, including expenses of betapharm and Falcon, increased by 20.0% to Rs.419.9 million from Rs.350.0 million. The increase was primarily on account of amortization of intangibles acquired in the acquisition of betapharm and Falcon amounting to Rs.87.2 million and Rs.6.8 million, respectively.

Foreign exchange gain/loss

Foreign exchange loss was Rs.126.3 million for fiscal 2006 as compared to a loss of Rs.488.8 million for fiscal 2005. In fiscal 2006, the rupee depreciated by 1.95%, resulting in a gain on translation and realization of foreign currency receivables and a loss on translation of foreign currency loans. This also caused a loss on forward foreign exchange contracts entered into to hedge receivables.

Other operating expense/(income), net

Other operating income net amounted to Rs.320.4 million in fiscal 2006, as compared to Rs.6.0 million in fiscal 2005. This includes profit of Rs.387.3 million in fiscal 2006 on sale of our finished dosages manufacturing facility located in Goa, India.

Operating income

As a result of the foregoing, our operating income was Rs.1,441.9 million in fiscal 2006, as compared to an operating loss of Rs.289.2 million in fiscal 2005. Operating gain as a percentage of total revenues was 5.9% in fiscal 2006, as compared to (1.5%) in fiscal 2005.

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Other income, net

For fiscal 2006 our other income was Rs.533.6 million, as compared to Rs.454.2 million for fiscal 2005. This includes net interest income of Rs.418.8 million in fiscal 2006 as compared to Rs.271.9 million in fiscal 2005. The increase in other income was primarily a result of an increase in interest income earned on investment of surplus funds.

Equity in loss of affiliates

Equity in loss of affiliates increased by Rs.30.1 million to Rs.88.2 million for fiscal 2006 from Rs.58.1 million for fiscal 2005, primarily due to a loss allocation from Perlecan Pharma Private Limited of Rs.40 million for fiscal 2006. However, the increase was offset by a decrease in loss allocation from Kunshan Rotam Reddy Pharmaceuticals by Rs.9.9 million on account of a reduction in losses.

Income before income taxes and minority interest

As a result of the foregoing, income before income taxes and minority interest increased to Rs.1,887.3 million in fiscal 2006, as compared to Rs.107 million in fiscal 2005. As a percentage of revenues, income before income taxes and minority interest was 7.8% of revenues in fiscal 2006, as compared to 0.5% of revenues in fiscal 2005.

Income tax expense

Income tax expense for fiscal 2006 was Rs.258.4 million as compared to an income tax net benefit of Rs.94.3 million for fiscal 2005. The income tax expense increase in fiscal 2006 was primarily a result of significantly higher income from operations in fiscal 2006 as compared to fiscal 2005, in which year we recorded a tax loss. Further, we had a higher weighted average deduction in fiscal 2005 as a result of research and development expenses principally related to increased research and development spending and lower credits arising from the I-VEN transaction.

Minority interest

Minority interest for fiscal 2006 was an expense of Rs.0.1 million representing minority s share in the profits of Dr. Reddy s Laboratories (Proprietary) Limited, our subsidiary in South Africa. During fiscal 2005, we realized a gain of Rs.9.9 million on account of allocation of minority s share in the losses of this subsidiary.

Net income

As a result of the above, our net income increased to Rs.1,628.9 million in fiscal 2006, as compared to Rs.211.1 million in fiscal 2005. Net income as a percentage of total revenues increased to 6.7% in fiscal 2006 from 1.1% in fiscal 2005.

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Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standard Board (FASB) issued FASB Interpretation No. 48, *Uncertainty in Income Taxes* (FIN 48). FIN 48 applies to all tax positions within the scope of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, and clarifies when and how to recognize tax benefits in the financial statements with a two-step approach of recognition and measurement. FIN 48 is effective for fiscal years beginning after December 15, 2006. FIN 48 also requires the enterprise to make explicit disclosures about uncertainties in their income tax positions, including a detailed roll forward of tax benefits taken that do not qualify for financial statement recognition. Differences between the amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts reported after adoption should be accounted for as a cumulative-effect adjustment recorded to the beginning balance of retained earnings. We have evaluated the impact of this pronouncement and do not believe that our adoption of FIN 48 for the fiscal year beginning April 1, 2007 will have a material effect on our financial position, cash flows or results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards No.157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 provides guidance on determination of fair value, and lays down the fair value hierarchy to classify the source of information used in fair value measurements. We will be required to adopt this new standard for the fiscal year beginning April 1, 2008. We are currently evaluating the requirements of SFAS 157 and have not yet determined the impact on our consolidated financial statements.

In February 2007, the FASB released Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. We will be required to adopt this new standard for the fiscal year beginning April 1, 2008. We are currently evaluating the requirements of SFAS 159 and have not yet determined the impact on our consolidated financial statements.

In June 2007, the Emerging Issues Task Force (EITF) issued EITF Issue No. 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services to be Used in Future Research and Development Activities*. EITF Issue No. 07-3 provides guidance concerning the accounting for non-refundable advance payments for goods and services that will be used in future research and development activities and requires that they be expensed when the research and development activity has been performed and not at the time of payment. The provisions of EITF Issue No. 07-3 are effective for fiscal years beginning after December 15, 2007, with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. We are currently evaluating the impact of adopting EITF Issue No. 07-3 on our consolidated financial statements.

5.B. ***Liquidity and capital resources***

Liquidity

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

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 and currently anticipated capital expenditures over the near term. As part of our growth strategy, we continue to review opportunities to acquire companies, complementary technologies or product rights. To fund the acquisition of betapharm in Germany in fiscal 2006, we borrowed 400 million under a bank loan facility with a maturity period of five years. If our future acquisitions involve significant cash payments, rather than the issuance of shares, we may need to further borrow from banks or raise additional funds from the debt or equity markets.

As of March 31, 2007 we anticipate expenditures of approximately U.S. $115 million over the next two fiscal years in connection with the addition of manufacturing capacity in and expansion of infrastructure requirements for our business.

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

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	Fiscal Year Ended March 31,			
	2005	2006	2007	2007
		(Rs. in million, U.S.$ in thousands)		
Net cash provided by /(used in):				
Operating activities	Rs. 2,291.6	Rs. 1,643.1	Rs. 11,804.5	U.S.$ 273,887
Investing activities	632.9	(34,524.4)	592.5	13,746
Financing activities	1,931.3	27,210.9	1,753.7	40,689
Effect of exchange rate changes on cash	55.8	95.1	118.1	2,741
Net increase / (decrease) in cash and cash Equivalents	Rs. 4,911.6	Rs. (5,575.2)	Rs. 14,268.8	U.S.$ 331,063

Cash Flow from Operating Activities

Net cash provided by operating activities increased from Rs.1,643.1 million in fiscal 2006 to Rs.11,804.5 million in fiscal 2007. The significant increase in net cash was primarily attributable to the increase in our overall revenues and profits as there was growth in our operations in North America (United States and Canada) resulting from the launch of key products such as simvastatin, finasteride and fexofenadine.

Net cash provided by operating activities in fiscal 2007 is based upon our fiscal 2007 net income (which was Rs.9,326.8 million), as increased to add back non-cash items (resulting in an increase of Rs.5,597.0 million) and as decreased to account for the fiscal 2007 increase in working capital (resulting in a decrease of Rs.3,119.6 million).

The increase in working capital was caused by an increase in accounts receivable by Rs.2,705.8 million and inventories by Rs.995 million, partly offset by an increase in trade payables by Rs.889.6 million, all in line with our increased sales and anticipated product launches.

Cash Flow from Investing Activities

Net cash provided by investing activities was Rs.592.5 million for fiscal 2007, as compared to net cash used by investing activities of Rs.34,524.4 million for fiscal 2006. This was primarily on account of a decrease in restricted cash by Rs.5,468.9 million during fiscal 2007, partly offset by additional expenditures of Rs.4,477.1 million on property, plant and equipment and Rs.325.8 million on intangible assets.

Cash Flows from Financing Activities

Net cash provided by financing activities for fiscal 2007 decreased to Rs.1,753.7 million, as compared to Rs.27,210.9 million for fiscal 2006. Net cash provided by financing activities for fiscal 2007 was primarily due to Rs.10,029.5 million in cash inflows resulting from our November 2006 public offering of American Depositary Shares, partly offset by the repayment of borrowings and short term loans from banks net of proceeds from a short term loan of Rs.5,870.7 million, repayment of long-term debt of Rs.1,888.5 million and payment of dividends of Rs.437.5 million. In comparison, net cash provided by financing activities for fiscal 2006 was primarily due to short-term borrowings from banks of Rs.6,322.0 million and long-term borrowings from banks incurred in connection with the acquisition of betapharm of Rs.21,598.30 million.

Principal obligations

The following table summarizes our principal debt obligations outstanding as of March 31, 2007:

		Payments due by period (Rs. in millions)				
Financial Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**After 5 years**	**Annual Interest Rate**
Short-term borrowings from banks	3,212.7	3,212.7				LIBOR + 60bps for foreign currency denominated

loans and 8% to 10% for rupee denominated loans

Long term debt	21,288.7	3,664.6	6,187.8	11,436.3		
From Indian Renewable Energy Development Agency	19.2	5.9	11.8	1.5	2%*	
For betapharm acquisition	21,269.5	3,658.7	6,176.0	11,434.8	EURIBOR + 70 bps	200 bps
Total obligations	24,501.4	6,877.3	6,187.8	11,436.3		

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* Loan received at a subsidized rate of interest from Indian Renewable Energy Development Agency Limited promoting use of alternative sources of energy.

Subject to obtaining certain regulatory approvals, there are no legal or economic restrictions on the transfer of funds between us and our subsidiaries or for the transfer of funds in the form of cash dividends, loans or advances.

The maturities of our short-term borrowings from banks vary from one month to approximately six months. Our objective in determining the borrowing maturity is to ensure a balance between flexibility, cost and the continuing availability of funds. All of our debts except for short-term working capital loans from banks are at fixed rates of interest.

Cash and cash equivalents are primarily held in Indian rupees, U.S. dollars, U.K. pounds sterling, Singapore dollars, Brazilian real, Euros, Russian roubles, Chinese yuan, South African rand and Hong Kong dollars.

As of March 31, 2006 and 2007, we had committed to spend approximately Rs.744.0 million and Rs.1,186.0, respectively, under agreements to purchase property and equipment and other capital commitments. These amounts are net of capital advances paid in respect of such purchases and we anticipate funding them from internally generated funds.

5.C. Research and development, patents and licenses, etc.

Research and Development

Our research and development activities can be classified into several categories, which run parallel to the activities in our principal areas of operations:

Formulations, where our research and development activities are directed at the development of product formulations, process validation, bioequivalency testing and other data needed to prepare a growing list of drugs that are equivalent to numerous brand name products for sale in the emerging markets.

Active pharmaceutical ingredients and intermediates, where our research and development activities concentrate on development of chemical processes for the synthesis of active pharmaceutical ingredients for use in our generics and formulations segments and for sales in the emerging and developed markets to third parties.

Generics, where our research and development activities are directed at the development of product formulations, process validation, bioequivalency testing and other data needed to prepare a growing list of drugs that are equivalent to numerous brand name products whose patents and regulatory exclusivity periods have expired or are nearing expiration in the regulated markets of the United States and Europe.

Critical care and biotechnology, where research and development activities are directed at the development of oncology and biotechnology products for the emerging as well as regulated markets. Our new biotechnology research and development facility caters to the highest development standards, including cGMP, Good Laboratory Practices and bio-safety level IIA. We are in the process of building our bio-generics pipeline. During fiscal 2005, we entered into an agreement with a U.S. based biotechnology company for the development of a bio-generics portfolio.

Drug discovery, where we are actively pursuing discovery and development of NCEs. Our research programs focus on the following therapeutic areas:

- Metabolic disorders
- Cardiovascular disorders
- Bacterial infections
- Inflammation
- Cancer

Custom pharmaceutical services, where we intend to leverage the strength of our process chemistry and finished dosage development expertise to target innovator as well as emerging pharmaceutical companies. The research and development is directed toward providing services to support the entire pharmaceutical value chain from discovery all the way to the market.

In fiscal 2005, 2006 and 2007, we expended Rs.2,803.3 million, Rs.2,153.0 million and Rs.2,462.7, respectively, on research and development activities.

Patents, Trademarks and Licenses

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We have filed and been issued numerous patents in our principal areas of operations: drug discovery, active pharmaceutical ingredients and intermediates and generics. We expect to continue to file patent applications seeking to protect our innovations and novel processes in several countries, including the United States. Any existing or future patents issued to or licensed by us may not provide us with any competitive advantages for our products or may even be challenged, invalidated or circumvented by our competitors. In addition, such patent rights may not prevent our competitors from developing, using or commercializing products that are similar or functionally equivalent to our products. We have filed 1,058 trademarks with the Registrar of Trademarks in India of which 558 are already registered. We also have made application for registration for non-U.S. trademarks in other countries in which we do business. We market several products under licenses in several countries where we operate.

5.D. Trend information

Formulations. According to ORG IMS in its March 2007 Moving Annual Total (MAT) report, our sales of formulations in India had a growth rate of 17%, as compared to the industry growth rate of 14% in India. According to the Center for Marketing and Advertising Research Consultancy (CMARC) report for the period November to February 2007, which measures doctors prescriptions, we were the fastest growing company among the top 10 companies in terms of sales of formulations in India. We launched 21 new products (including extentions of existing product lines) in India during fiscal 2007. We expect to grow at a rate higher than the pharmaceutical industry growth rate in India.

The competitive environment in the developing markets outside of India is changing, with most countries having moved or moving towards recognizing product patents. This implies that the new product launches in the future will depend either on the innovator patent expiries or developing non-infringing processes and/or invalidating the patents. Further, the governments in several countries are in the process of implementing various healthcare reforms to promote the consumption of generic drugs in order to contain their healthcare costs. This will present growth opportunities in several of these markets though we could experience a reduction of the reimbursement prices. However, an increasing number of patent expiries over the next few years and changing demographic conditions also present additional growth opportunities.

As part of our global business development program, we will continue to explore in-licensing and other opportunities to strengthen our product pipeline. Among our international markets, Russia is our single largest market. In 2006, the pharmaceutical market in Russia grew by 27% driven by 20% growth in the retail segment and 78% growth in the Dopolnitelnoye lekarstvennoye obespechenoye (DLO) program. Pursuant to the DLO program, the Russian government purchases drugs for free distribution to low income individuals. During fiscal 2007, we launched several new products in Russia through a combination of owned as well as in-licensed products. Our entry into the hospitals and over-the-counter segments also added to our overall growth in Russia. We expect our growth momentum to continue in Russia as a result of the above initiatives. We are also focusing on driving growth in other countries in the former Soviet Union, South Africa and China through new product launches.

Active Pharmaceutical Ingredients and Intermediates. In this segment, we are focused on increasing our level of customer engagement in key markets globally to market additional products from our product portfolio to key customers. We are also focused on identifying unique product opportunities in key markets and protecting them through patenting strategies. As of March 31, 2007, we had a pipeline of 104 drug master filings (DMFs) in the United States. With patent expiries in several markets in the next few years, we intend to promote growth in fiscal 2008 and beyond by leveraging our portfolio of markets and products. During fiscal 2007, our sales growth and gross profit margins were positively impacted by an increase in sales of high margin products, particularly benefiting from the launch of commercial supplies of sertraline (Zoloft®) in the United States as well as one-time supply of rabeprazole to Teva. Following expiration of the 180 days of marketing exclusivity in sertraline, the selling price has normalized. The success of our API products in our key markets is contingent upon the extent of competition in the generics market, and we anticipate that such competition will continue to be significant.

Generics. In this segment, we are focused on the regulated markets of North America (the United States and Canada) and Europe. In the United States, our revenues during fiscal 2007 benefited significantly from the launch of fexofenadine, the generic version of Allegra® (launched at risk (i.e., prior to resolution of patent infringement claims) in April 2006), simvastatin, the authorized generic version of Zocor®, finasteride 5 mg, the authorized generic version

of Proscar®, and ondansetron, the generic version of Zofran®. See Recent developments for a discussion of litigation related to fexofenadine.

In January 2006, we entered into an agreement with Merck allowing us to distribute and sell authorized generic versions of two of their products, finasteride and simvastatin (sold by Merck under the brand names Zocor® and Proscar®), provided that some other company obtained 180-day exclusivity after the expiration of the patents for either product. Subsequently, the patents for both of these products expired and other companies obtained 180-day marketing exclusivity. Accordingly, we launched sales of these products on June 19, 2006 and June 23, 2006, respectively. Upon the expiration of the 180-days of marketing exclusivity (towards the end of December 2006), we launched simvastatin under our own Abbreviated New Drug Application. The prices and volume of simvastatin have decreased significantly following the expiration of the 180-day marketing exclusivity period. On December 27, 2006, we launched a generic version of GSK s Zofran® (ondansetron) tablets with 180-days of marketing exclusivity. The prices and volume of ondansetron have decreased significantly following the expiration of the 180-day marketing exclusivity period in June 2007.

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We intend to expand our portfolio over the next few years by adding solid dosages forms as well as alternate dosage forms of each product through alliances to complement our internal product development effort. In the U.S., we have been pursuing a strategy to increase our operating leverage by selling our pipeline into new channels for meaningful incremental revenue and margin generation with limited incremental selling, general and administrative expenses and research and development. During fiscal 2008, we expect to implement this strategy along two lines. The first aspect of this strategy is our decision to enter the private label OTC business following the suspension of OTC packaging and distribution activities at Leiner. The initial response from various customer groups has been positive. The first product (ranitidine 150 mg) was successfully launched and launch planning for additional products has been progressing well. The second aspect of this strategy is an opportunity to supply generics to U.S. government agencies such as veteran affairs and department of defense. In support of this opportunity, Dr. Reddy s has become an authorized supplier to the U.S. government. The first product to be supplied to the U.S. government is finasteride 5mg.

We are also expanding our presence in Canada by leveraging the infrastructure and assets that we have established for the U.S. market. The success of our existing products is contingent upon the extent of competition in the generics market, which we anticipate will continue to be significant. As of March 31, 2007, we had 76 ANDAs pending approval (including ANDAs through alliances with third parties) with the U.S. FDA. This included 33 patent challenges. The launch of these products is contingent upon the successful outcome of litigation related to such products.

In the United Kingdom, we do not anticipate any significant product launches in fiscal 2008.

In Germany, the first full year of revenues and net income of betapharm, which we acquired in March 2006, is reflected in our fiscal 2007 results. During fiscal 2007, the German government passed the Economic Optimization of the Pharmaceutical Care Act (AVWG), which became effective May 1, 2006. In addition, a new list of products for which the co-payment fee is waived came into effect in Germany from November 1, 2006. As a response to this legislation, some of the leading pharmaceutical companies in Germany announced aggressive price cuts and we responded with significant price cuts on those of our products subject to the new regulations. Further, in the quarter ended March 31, 2007, we witnessed supply constraints from our lead supplier. We have re-negotiated our supply agreement with our lead supplier, Salutas Pharma GmbH (Salutas) whereby we have converted the agreement to a non-exclusive supply arrangement allowing us the flexibility to move individual products out of Salutas. While the products are transferred out of Salutas to alternate manufacturing locations, we agreed to pay higher costs for the products supplied by Salutas which will be reflected in our results in fiscal 2008. The German government passed the WSG, which became effective April 1, 2007, which empowers insurance companies to influence the pricing of products through tenders and rebate contracts.

The future growth of betapharm is based on the continued success of our existing products which are contingent upon the extent of competition in the German market, changes in the market dynamics due to the AVWG, WSG and additional healthcare reforms further impacting the pricing, the successful transfer of key products out of Salutas to alternate supply locations, the competitive environment for our key products as well as successful new product introductions.

Critical Care and Biotechnology. We expect that we will continue to market our existing products and develop additional products in this segment. The success of our existing products is contingent upon the extent of competition in this segment. In April 2007, we launched our second biotechnology product, Reditux™, Dr. Reddy s brand of rituximab, a monoclonal antibody used the in the treatment of Non-Hodgkin s Lymphoma. We expect to continue with our investments in building the infrastructure and capabilities for the development and launch of additional biogenerics in the less regulated markets in the next few years. Longer-term, we intend to target launches in the regulated markets as and when the regulatory pathway becomes clear in these markets.

Custom Pharmaceutical Services. In fiscal 2007, this segment benefited from the full year impact of the acquisition of Falcon. Excluding the impact of the Falcon acquisition, the base business in this segment almost doubled as we continue to expand the portfolio of relationships and projects with large pharmaceutical companies and emerging pharmaceutical and biotechnology companies. In fiscal 2008, we witnessed some supply constraints in the raw material for one of the our key products manufactured at Falcon due to which we were not able to service part of the

customer requirements during the quarter ended June 30, 2007. We have commissioned a facility in India to supply this ingredient to Falcon. We expect to grow this business on the strength of expanding customer relationships. In addition, we are also actively pursuing inorganic growth opportunities.

Drug Discovery. Currently, we have a pipeline of 6 NCEs of which 5 are in clinical development and 1 is in pre-clinical development. Three of these NCEs have been assigned to Perlecan under the terms of our research and development arrangement with I-VEN entered into during fiscal 2006, and one NCE is under a co-development arrangement with Denmark based Rheoscience A/S. During August 2007, Rheoscience A/S and Dr. Reddy s announced the commencement of the Phase III clinical trials for Balaglitazone (DRF 2593), which is an insulin sensitizer that acts as a partial PPAR (peroxisome proliferator-activated receptor) gamma agonist. The study is the first in a series of planned Phase III trials which will investigate the safety and efficacy of Balaglitazone as an oral anti-diabetic drug. As we make progress in advancing our pipeline through various stages of clinical development we are building capabilities in drug development. We believe this will help to enhance the value of our NCE assets. We expect to further complement our internal research and development efforts by pursing strategic partnerships and alliances in our key focus areas.

Specialty. We are currently in the research and development phase of our specialty pharmaceuticals business, which may become a separate segment at some point in the future. Following the acquisition of Trigenesis Therapeutics Inc. in May 2004, we commenced

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the pursuit of the development of dermatology products targeted towards specialty prescription dermatology segment, which products will have patent protected franchises.

Research and Development Expenses. In fiscal 2007, our research and development investments benefited from the recognition of income under the Perlecan and I-VEN agreements described above. The income recognition under the agreement with I-VEN was completed in fiscal 2007. Based on our historical research and development expense trends, we expect our research and development expenses to be higher in the first half of fiscal 2008 as compared to the first half of fiscal 2007, and higher in the second half of fiscal 2008 as compared to the first half of fiscal 2008.

5.E. Off-Balance Sheet Arrangements

Guarantees. We adopted the provisions of FASB Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others*. The Interpretation requires that we recognize the fair value of guarantee and indemnification arrangements issued or modified by us after December 31, 2002, if these arrangements are within the scope of that Interpretation. In addition, under previously existing generally accepted accounting principles, we continue to monitor the conditions that are subject to the guarantees and indemnifications to identify whether it is probable that a loss has occurred, and would recognize any such losses under the guarantees and indemnifications when those losses can be estimated.

Kunshan Rotam Reddy Pharmaceutical Co. Limited (KRRP) secured a credit facility of Rs.32 million from Citibank, N.A. (Citibank). To enhance the credit standing of KRRP, during fiscal 2006 we issued a corporate guarantee amounting to Rs.45.0 million in favor of Citibank. The guarantee is required to be renewed every year and our liability may arise in case of non-payment or non-performance of other obligations of KRRP under its credit facility agreement with Citibank. As of March 31, 2007, we believe that the fair value of such liability is not material.

5.F. Tabular Disclosure of Contractual Obligations

The following summarizes our contractual obligations as of March 31, 2007 and the effect such obligations are expected to have on our liquidity and cash flows in future periods.

		Payments Due by Period (Rs. in millions)			
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Operating lease obligations	Rs.474.3	Rs.136.6	Rs.159.3	Rs.111.2	Rs.67.2
Capital lease obligations	252.5	5.7	12.4	14.1	220.3
Current portion	5.7	5.7			
Non-current portion	246.8		12.4	14.1	220.3
Purchase obligations					
Agreements to purchase property and equipment and other capital commitments[(1)]	1,186.0	1,186.0			
Borrowings from banks	3,212.7	3,212.7			
Long term debt obligations	21,288.7	3,664.6	6,187.8	11,436.3	

Current portion	3,664.6	3,664.6			
Non-current portion	17,624.1		6,187.8	11,436.3	
Total contractual obligations	Rs.24,414.2	Rs.8,205.6	Rs.6,359.5	Rs.11,561.6	Rs.297.5

(1) These amounts are net of capital advances paid in respect of such purchases and are expected to be funded from internally generated funds.

In accordance with SFAS No. 87, *Employers Accounting for Pensions*, and SFAS No. 106, "*Employers Accounting for Postretirement Benefits Other Than Pensions*, as amended by SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, the total accrued benefit liability for defined benefit and contribution plans recognized as of March 31, 2007, was Rs.39 million. This accrued liability is included under other long-term liabilities in the consolidated balance sheet. This amount is impacted by, among other items, pension expense funding levels, change in plan demographics and assumptions, return on plan assets, etc. Because the accrued liability does not represent expected liquidity needs, we did not include this amount in the contractual obligation table.

5.G. ***Safe harbor***

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See page 2.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6.A. *Directors and senior management*

The list of our directors and executive officers and their respective age and position as of March 31, 2007 are as follows:

Directors

Name[1]	Age (in yrs)	Position
Dr. K. Anji Reddy[2]	68	Chairman
Mr. G.V. Prasad[2],[3]	46	Chief Executive Officer and Executive Vice Chairman
Mr. Satish Reddy[2],[4]	39	Chief Operating Officer and Managing Director
Mr. Anupam Puri	61	Director
Prof. Krishna G. Palepu	52	Director
Dr. Omkar Goswami	50	Director
Mr. P.N. Devarajan	72	Director
Mr. Ravi Bhoothalingam	61	Director
Dr. V. Mohan[5]	52	Director

(1) Except for Dr. K. Anji Reddy, Mr. G.V. Prasad and Mr. Satish Reddy, all of the directors are independent directors under the corporate governance rules of the New York Stock Exchange.

(2) Full-time director.

(3) Son-in-law of Dr. K Anji Reddy.

(4) Son of Dr. K Anji Reddy.

(5) Dr. V. Mohan ceased to be a Director of the Company with effect from July 28, 2006.

In addition, Dr. J.P. Moreau and Ms. Kalpana Morparia joined our Board as additional Directors on May 18, 2007 and June 5, 2007, respectively. Our shareholders approved appointment of Dr. J. P. Moreau and Ms. Kalpana Morparia as Directors on July 24, 2007.

Executive Officers

Our policy is to classify our officers as executive officers if they have membership on our Management Council. Our Management Council consists of various business and functional heads and is our senior management organization. As of March 31, 2007, the Management Council consisted of:

Name and Designation	Education/ Degrees Held	Age	Experience in years	Date of commencement of employment	Particulars of last employment
G.V. Prasad[1] Vice Chairman and Chief Executive Officer	B. Sc.(Chem. Eng.), M.S. (Indl. Admn.)	46	23	June 30, 1990	Promoter Director, Benzex Labs Private Limited
Satish Reddy [2] Managing Director and Chief Operating Officer	B.Tech., M.S.	39	15	January 18,1993	Director, Globe Organics Limited
Abhijit Mukherjee President Developing Businesses	B. Tech. (Chem.)	48	26	January 15, 2003	President, Atul Limited
Alan Sheppard[3] Executive Vice President Europe Generics	B. Tech. (Hons.)	59	36	November 1, 2004	Vice President Global Corporate Strategy, Pliva
Andrew J. Miller [4] Executive Vice President and U.S. General Counsel	B.A., J.D.	51	27	January 8, 2002	Shareholder, Budd Larner, P.C.
Arun Sawhney President API	B. Com. PGDBM	51	30	June 1, 2001	Chief Executive, Max-GB Ltd.
Ashwani Kumar Malhotra Executive Vice President Formulations TechOps	M. Pharma., PGD-IE&M, PGD-CD	51	27	February 8, 2001	Unit Head, Cipla Limited

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Name and Designation	Education/ Degrees Held	Age	Experience in years	Date of commencement of employment	Particulars of last employment
Jaspal Singh Bajwa President Branded Formulations (Rest Of the World)[5]	MBA	55	30	April 10, 2003	Executive Director and COO, Marico Industries Limited
Jeffrey Wasserstein Executive Vice President Specialty Operations	B.A., J.D.	48	24	January 31, 2005	EVP & Chief Business Officer -Avigenics, Inc.
K. B. Sankara Rao Executive Vice President Integrated Product Development	M. Pharma.	53	29	September 29, 1986	Production Executive, Cipla Limited
Mark Hartman President North America Generics	B.Sc. Dairy Science	48	22	January 4, 2002	VP Sales & Marketing - Generics, Watson Laboratories
Dr. R. Rajagopalan President Discovery Research	Ph.D.	57	34	April 18, 1994	Principal Research Scientist, Hoechst India Limited
Raghu Cidambi Advisor	B.Sc., PGDBM, LLB.	56	37	October 1,.2001	Director Eenadu, Margadarsi Group
Saumen Chakraborty Chief Financial Officer and President Information Technology and Business Process Excellence	PGDM	46	23	July 2, 2001	Vice President, Tecumseh
Dr. Uday Saxena Chief Scientific Officer	Ph.D.	49	17	March 3, 2003	Vice President, Preclinical Research, AtheroGenics Inc.
V. S. Vasudevan President Eurpoean Generics Business	B. Com. ACA	56	33	April 1, 1986	Finance Head, Standard Equity Fund Limited

(1) Son-in-law of Dr. K Anji Reddy.

(2) Son of Dr. K Anji Reddy.

(3) Ceased to be our employee effective March 31, 2007.

(4) Term of employment expired on July 31, 2006.

(5) Does not include North America and Europe.

In addition, the following new members joined the Management Council after March 31, 2007:

Name	Age	Position
Dr. Rajinder Kumar[1]	51	President Research, Development and Commercialization
Mr. Prabir Jha[2]	40	Senior Vice President and Global Chief of Human Resources
Mr. Amit Patel[3]	32	Vice President Corporate Development and Strategic Planning
Mr. Cartikeya Reddy[3]	37	Vice President and Head Biologics

(1) Joined in April 2007

(2) Joined in May 2007

(3) Joined in August 2007

There was no arrangement or understanding with major shareholders, customers, suppliers or others pursuant to which any director or executive officer referred to above was selected as a director or member of senior management.

Biographies

Directors

Dr. K. Anji Reddy is our Founder and Chairman of our Board of Directors. He is also the Founder of Dr. Reddy s Research Foundation and Dr. Reddy s Foundation. He has an undergraduate degree in Technology of Pharmaceuticals and Fine Chemicals from the University of Bombay and a Ph.D. in Chemical Engineering from National Chemical Laboratories, Pune. He has six years experience with Indian Drugs and Pharmaceuticals Limited in the manufacture and implementation of new technologies in bulk drugs. He is a member of the Board of Trade as well as the Prime Minister s Task force on pharmaceuticals and knowledge-based industries. The government of India bestowed the Padmashri Award upon him for his distinguished service in the field of trade and commerce. In addition to positions held in our subsidiaries and joint ventures, he is a Director in Diana Hotels Limited, OOO JV

Reddy Biomed Limited, Pathenco APS and GAIN Foundation, Switzerland.

Mr. G.V. Prasad is a member of our Board of Directors and serves as our Vice-Chairman and Chief Executive Officer. He was the Managing Director of Cheminor Drugs Limited, a Dr. Reddy s Group Company, prior to its merger with us. He has a Bachelor of Science degree in Chemical Engineering from Illinois Institute of Technology, Chicago, U.S.A. and an M.S. in Industrial Administration from Purdue University, U.S.A. He is also an active member of several associations including the National Committee on Drugs & Pharmaceuticals. In addition to positions held in our subsidiaries and joint ventures, he is a Director of Diana Hotels Limited, Nipuna Services Limited and Ocimum Bio Solutions Limited.

Mr. Satish Reddy is a member of our Board of Directors and serves as our Managing Director and Chief Operating Officer. He has a Master of Science degree in Medicinal Chemistry from Purdue University, U.S.A. and a Bachelor of Technology degree in Chemical Engineering from Osmania University, Hyderabad. He is the member of the Confederation of Indian Industries for Andhra Pradesh. In addition to positions held in our subsidiaries and joint ventures, he is also a Director of Diana Hotels Limited and OOO JV Reddy Biomed Limited..

Mr. Anupam Puri has been a member of our Board of Directors since 2002. He retired from McKinsey & Company in late 2000. He was a Director and played a variety of other leadership roles during his 30-year career there. Before joining McKinsey & Company, he was Advisor for Industrial Development to the President of Algeria, and consultant to General Electric s Center for Advanced Studies. He holds a Bachelor of Arts degree in Economics from St. Stephen s College, Delhi University, and Master of Arts and M. Phil. degrees from Oxford University. He is also on the Boards of ICICI Bank Limited, Mahindra & Mahindra Limited and Tech Mahindra Limited.

Professor Krishna G. Palepu has been a member of our Board of Directors since 2002. He is the Ross Graham Walker Professor of Business Administration at the Harvard Business School. He holds the title of Senior Associate Dean, Director of Research. Professor Palepu has a Masters degree in physics from Andhra University, an M.B.A. from the Indian Institute of Management and a Ph.D. from the Massachusetts Institute of Technology. He is also a recipient of an honorary M.A. from Harvard, and an honorary Doctorate from the Helsinki School of Economics. He teaches finance, control and strategy in Harvard s M.B.A. and Executive programs. He has published numerous research papers and is also the co-author of the book titled Business Analysis & Valuation: Text and Cases. He serves as a consultant to a wide variety of businesses and is on the boards of Satyam Computer Services Limited, Exetor Group, Enamics Limited and Harvard Business School Publishing Company.

Dr. Omkar Goswami has been a member of our Board of Directors since 2000. He is a founder and Chairman of CERG Advisory Private Limited, a corporate advisory and economic research and consulting company. He was a senior consultant and chief economist at the Confederation of Indian Industry for six years. He has also served as editor of Business India, associate professor at the Indian Statistical Institute, Delhi, and as an honorary advisor to the Ministry of Finance. He holds a Bachelor of Economics degree from St. Xavier s College, Calcutta University, a Master of Economics degree from the Delhi School of Economics, Delhi University and a Ph.D. degree from Oxford University. He is also a Director on the Boards of Infosys Technologies Limited, DSP-Merrill-lynch Fund Managers Limited, Crompton Greaves Limited, Infrastructure Development Finance Company Limited, SRF Limited, Gujarat Ambuja Cements Limited, Sona Koyo Steering Systems Limited and Cairn India Limited.

Mr. P.N. Devarajan has been a member of our Board of Directors since 2000. He has previously served as a Director of Cheminor Drugs Limited. He was a member of the Planning Board of Madhya Pradesh, Chairman of Research at the Council of National Environment Engineering Research Institute, member of the Assessment Committee of the Council of Scientific and Industrial Research and a member of the Research Council of National Chemical Laboratory. He has previously served as a Director of the Bank of Baroda, a member of the Central Board of Directors of the Reserve Bank of India and Group President and consultant of Reliance Industries Limited. Currently, he is also a Director on the Board of Kothari Sugars and Chemicals Limited, Shriram EPC Ltd. and Tropical Technologies Pvt Ltd.

Mr. Ravi Bhoothalingam has been a member of our Board of Directors since 2000. He has served as the President of The Oberoi Group and was responsible for its worldwide operations. He has also served as the Head of Personnel at BAT Plc, Managing Director of VST Industries Limited, and as a Director of ITC Limited. He holds a Bachelor of Science degree in physics from St. Stephens College, Delhi and a Master of experimental psychology degree from

Gonville and Caius College, Cambridge University. He is also a Director of Nicco Internet Ventures Limited and Sona Koyo Steering Systems Limited.

Dr. V. Mohan has been a member of our Board of Directors since 1996. He is also a visiting professor of Diabetology at Sri Ramachandra Medical College and a professor of International Health at the University of Minnesota, U.S.A. He holds a Bachelor of Medicine degree, Doctor of Medicine degree, Ph.D. and a Doctor of Science degree from Madras University. He was awarded the prestigious Dr. B.C. Roy National Award by the Medical Council of India in 2005. He is also the Chairman and Managing Director of Dr. Mohan s Diabetes Specialties Centre Private Limited and Dr. Mohan s Diabetes Specialties Centre (Hyderabad) Private Limited

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and he is also the President of the Madras Diabetes Research Foundation. He retired from the Board on July 28, 2006.

Dr. J.P. Moreau joined our Board as a member on May 18, 2007. He is presently working as Executive Vice-President and Chief Scientific Officer of the IPSEN Group where he is responsible for the Group s research and development programs in Paris, London, Barcelona and Boston. Before that, he was IPSEN Group s Vice-President, Research from April 1994 and has been a member of the Executive Committee of IPSEN Group since that date. Dr. Moreau has a degree in Chemistry from the University of Orléans and a D.Sc in biochemistry. He has also conducted post-doctorate research at the École polytechnique. He has published over 50 articles in scientific journals and is named as inventor or co-inventor in more than 30 patents. He is a regular speaker at scientific conferences and a member of Nitto Denko Scientific Advisory Board. In October 1976, Dr. Moreau founded Biomeasure Incorporated, based near Boston, and has been its President and CEO since then. He was also responsible for establishing Kinerton Ltd. in Ireland in March 1989, a wholesale manufacturer of therapeutic peptides, of which he is currently a Director.

Ms. Kalpana Morparia joined our Board as a member on June 5, 2007. She is Chief Strategy and Communications Officer of ICICI Group. She was previously the Joint Managing Director of ICICI Bank Limited and was responsible for the Corporate Centre at ICICI Bank Limited, comprising operations, planning and strategy, risk management, human resources management, legal and corporate communications and corporate brand management. A graduate in law from Bombay University, Ms. Morparia joined ICICI Limited in 1975. She worked in the areas of planning, treasury, resources and corporate legal services. In 2001, she led the ICICI Group s major corporate structuring initiative, the merger of ICICI Limited with ICICI Bank to create India s second largest bank. Ms. Morparia has served on several committees constituted by the Government of India. In November 2005, she was honored with the Economic Times Business Women of the Year award. In September 2006, she was named one of The 100 Most Powerful Women by Forbes Magazine. She also serves on the Board of ICICI Lombard General Insurance Company Limited, ICICI Prudential Life Insurance Company Limited, ICICI Prudential Asset Management Company Limited and ICICI Securities Limited.

Executive Officers

Mr. Abhijit Mukherjee is our President of Developing Business. Before joining us, he worked with Atul Limited for 10 years, where he held numerous positions of increasing responsibility. In his last assignment there he was President, Bulk Chemicals and Intermediates Business, and Managing Director, Amal Products Limited. He started his career as a management trainee in Hindustan Lever Limited (HLL) and put in 13 years in that company including 3 years in a Unilever company. He was primarily involved in the technical assignments in Aroma chemicals business in HLL and Unilever and also in detergents and sulphonation plants of HLL. He is a graduate in Chemical Engineering from the Indian Institute of Technology, Kharagpur.

Mr. Alan Shepard was our Executive Vice President Europe Business. He had joined us from Pliva, where he was Vice President for Global Corporate Strategy. He has a unique combination of experience in areas of commercial, general management, research and development, manufacturing and strategic planning across a variety of product lines, including generics, ethical branded, over the counter and vaccines. He has been associated with several pharmaceutical companies and held several management positions such as General Manager of Rhone-Poulenc Rorer (now Aventis), European Marketing Director for Medeva and held various positions with Institute Merieux, Smith Kline and Upjohn. He has a Bachelors of Technology (Honors) degree from Bradford University and is an honorary lecturer for the University of Wales Medical faculty. He has served on several U.K. government committees and been a long-standing member of the Association of British Pharmaceutical Industry s code of practice committee. He resigned as Executive-Vice President -Europe business effective March 31, 2007.

Mr. Andrew Miller was Executive Vice President Legal and Intellectual Property Management. He is also a principal at Budd Larner, P.C., our legal counsel in the United States. He has represented us since the formation of our first U.S. entity in 1992. He is a graduate of the University of Michigan Law School where he was an Editor of the University of Michigan s Journal of Law Reform. He holds a B.A. degree from the State University of New York at Buffalo, where he graduated summa cum laude in 1977 and was elected a member of Phi Beta Kappa. Mr. Miller s term of employment ended on July 31, 2006.

Mr. Arun Sawhney is President of our Europe and Global API businesses. He joined us in 2001 as President of our API business from Max-GB Limited, where he was Chief Executive. Prior to that he headed the Global Business

Development function at Ranbaxy Laboratories Limited. He has also had successful stints as Manager Exports with Hindustan Ciba Geigy and as Regional Sales Manager with Bayer India, earlier in his career. He is an MBA and silver-medalist (an award for being at the top of his class) from the International Management Institute, New Delhi, and a Bachelor s degree in Commerce from Sydenham College of Commerce and Economics, Mumbai.

Mr. Ashwani Kumar Malhotra is Executive Vice President of our Formulations Technical Operations and from March 2004 is responsible for formulation manufacturing operations, supply chain management and projects. He joined us as Vice President in February 2001, and was responsible for the India operations supporting our generics and specialty businesses with new product

development filings and manufacturing and supply of products to regulated markets such as the United States, Canada, Europe, the United Kingdom, South Africa, Australia and New Zealand. Prior to joining us, he worked with Cipla Limited for 13 years in various capacities and with Warner Hindustan, a division of Parke Davis in formulations development and manufacturing for 7 years. He holds a postgraduate degree in Pharmacy from the Institute of Technology, Banaras Hindu University. He also holds a Diploma in Industrial Engineering & Management and a Postgraduate Diploma in Computer Systems from the Institute of Public Enterprises, government of India.

Mr. Jaspal Singh Bajwa is President of our Branded Formulations (Rest of the World) business. He joined us from Marico Industries, where he was Executive Director and Chief Operating Officer. He has 27 years of diverse experience in the consumer and healthcare products industries, having worked with Nestlé, S.A. and Bausch and Lomb, Inc. He started his career with Nestlé, S.A. After 15 years with Nestlé, S.A. in Sales and Marketing, his last position was Chief of Marketing in India. Subsequently, he spent over 10 years with Bausch and Lomb, Inc., where he held several senior management positions including those of Managing Director for India/ SAARC, and Head of their Canadian Subsidiary. He has a Bachelor s degree in Food Technology and an MBA from the Indian Institute of Management, Ahmedabad.

Mr. Jeffrey Wasserstein is Executive Vice President of our North America Specialty business and head of our North America business. He joined us in January 2005. He focuses on building our specialty business in North America and in addition works with the North American Management Team on selected opportunities for adding value to our other businesses in North America. He is also head of our New Jersey office where he leads our North America Operations function. Immediately prior to joining us he was EVP and Chief Business Officer of Avigenics, Inc., a biotechnology company engaged in the development of therapeutic proteins. He had a long career with Schering Plough Corporation where he was Senior Vice President of Corporate Consent Decree Integration. Prior to this role, he was the President of Schering Canada. He also held several positions of increasing responsibility at the Vice President level over Corporate Business Development, Strategic Planning and Internal Consulting and as Associate General Counsel-Commercial. Prior to joining Schering Plough Corporation, he was an Associate Attorney with Wachtell, Lipton, Rosen & Katz. He holds a Bachelor of Arts degree from Franklin & Marshall College and a J.D. degree from New York University School of Law.

Mr. K.B. Sankara Rao is Executive Vice President responsible for Integrated Product Development for our Branded Formulations, Generics, API and specialty businesses and for formulation development of NCEs. He has been with us since 1986 in various capacities, establishing the manufacturing facilities, quality assurance systems, formulation research and development and managing supply chain for our formulations business. He also upgraded manufacturing facilities to the present day business needs, which resulted in the attainment of various statutory approvals, including U.K. MHRA approval. He is also responsible for the design and implementation of the Self Managed Team concept in two of our formulations manufacturing units. He holds a Masters degree in Pharmacy from Andhra University. He is a life member of the Indian Pharmaceutical Association, Indian pharmacy graduates association amongst his other affiliations. He has also been a member of CII-Southern Regional Quality & Productivity Sub-committee.

Mr. Mark Hartman is President of our North America Generics business. He has 22 years of experience in the pharmaceutical industry. Before joining us, Mark spent five years at Watson Laboratories. His last three positions at Watson were Director of Marketing for Trade and Managed Care, Executive Director, Sales and Marketing Watson Generics, and Vice President, Sales and Marketing, Watson Generics. He was involved in multiple product and company acquisitions during his tenure with Watson. Before Watson, he was Director of Marketing for Alpharma USPD, Marketing Manager at Geneva Pharmaceuticals, and held various brand and generic sales and marketing positions during his 10 years at Lederle Laboratories. He holds a bachelors degree in Dairy Science from Virginia Tech, Virginia.

Dr. R..Rajagopalan is the President of our Discovery Research division. A distinguished postgraduate student from the University of Madras, Rajagopalan obtained his doctoral degree from the University of Bombay. He began his career about three decades ago in Hoechst India Ltd. and made impressive contributions in cardiovascular and general pharmacology research. He joined Dr. Reddy s Discovery Research in 1994, and was instrumental in building discovery biology capabilities in Hyderabad. He has headed the Discovery Research Program as President since 2001,

and under his management, our company has created a leadership position in the areas of metabolic disorders and cardiovascular research. He has several research publications and patents to his credit, and is associated with several academic and professional organizations. He has also been the recipient of a number of prestigious awards, including the R. N. Chopra Oration Award as an accomplished Discovery Research Pharmacologist in 2005.

Mr. Raghu Cidambi is Advisor and Head of Corporate Intellectual Property Management and Strategic Planning. Prior to joining us, he served with the Eenadu Group, a large south India-based media conglomerate, where he was responsible for its legal affairs. He has graduated from the Indian Institute of Management, Calcutta and thereafter obtained a Bachelor s Degree in Law from the Osmania University in Hyderabad.

Mr. Saumen Chakraborty is currently our Chief Financial Officer and President- Information Technology & Business Process

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Excellence. Prior to this role he was our Global Chief of HR. He has 23 years of experience in strategic and operational aspects of management. Prior to joining us, he held various positions including line manager and a human resources facilitator, with diverse portfolios such as Senior Manager (Finance and Accounts) in Eicher, and Vice President (Operations) in Tecumseh. A member of various industry forums including the CII and the National HRD Network, he graduated with honors as the valedictorian of his class from Visva-Bharati University in Physics, and went on to pursue management from the Indian Institute of Management, Ahmedabad. He continues to be responsible for Information Technology and Business Process Excellence.

Dr. Uday Saxena is our Chief Scientific Officer. Since 2000, he has also been the President and CEO of Reddy US Therapeutics, Inc., our subsidiary located in Atlanta, Georgia. Reddy US Therapeutics, Inc. is engaged in drug discovery in the areas of diabetes, inflammation and cardiovascular disease. He has been in the pharmaceutical/biotech industry for over a decade. From 1997 to early 2000, he was Vice President of Research and a member of the executive committee at AtheroGenics, Inc, a publicly traded biopharmaceutical company located in Alpharetta, Georgia. While at AtheroGenics, he directed several drug discoveries and early development programs that lead to identification of novel compounds currently in late phase clinical trails for restenosis, atherosclerosis and chronic inflammation. Prior to that he was at Parke-Davis Research Division, Ann Arbor, Michigan, where he was responsible for establishing a discovery program in inflammation and atherosclerosis.

Mr. V.S. Vasudevan is currently the President European Generics business. Prior to this role he was our Chief Financial Officer. In the position of Chief Financial Officer, he was responsible for managing our finance organization. He also was the head of the Secretarial, Legal, Compliance, Investor Relations and Internal Audit functions. He played an important role in establishment of our corporate governance framework. Under his leadership, we received external recognition for our corporate governance and financial reporting practices from the Institute of Company Secretaries of India and the Institute of Chartered Accountants of India. He played a key role in the integration of Cheminor Drugs Limited with us, the acquisition of betapharm in Germany and in our growth through various other corporate initiatives, including the acquisition of other companies in India and overseas and the acquisition of brands in India. He is a Chartered Accountant by qualification, and a member of the Peer Review Board of the Institute of Chartered Accountants of India.

Dr. Rajinder Kumar is our President Research, Development and Commercialization. He is a graduate of University of London, University of Birmingham and University of Dundee. After receiving his degree in Medicine and Surgery, he obtained his post-graduate diploma in psychiatry and neurology from The Royal College of Surgeons in Ireland in 1990. He has held various leadership roles in the vision, development and implementation of the overall brand strategies to support the research and development and business development operations across different therapeutic areas within the pharmaceutical industry. He has extensive experience in drug development, regulatory affairs, and commercial strategy in North America, Europe, Japan and Asia. He has presented at various international meetings, has chaired international symposia and scientific advisory boards and has to his credit a range of highly respected publications. He is a member of many international scientific and clinical organizations, including Fellow of the Royal Society of Medicine and is a member of the Institute of Directors in the United Kingdom. He has an extensive history of building and managing strong result-focused teams. With his wide array of experience across research and development, expertise in regulatory affairs across the globe and clinical expertise, coupled with membership in various international forums, Dr. Kumar adds significant strength to our organizational capabilities. Prior to joining us, he was an independent consultant to several organizations in the areas of medical and commercial strategy and in the development of early stage molecules to proof-of-concept.

Prabir Jha is our Senior Vice President and Global Chief of Human Resources. He moved to the private sector after almost 10 years in the Indian government. He has worked for organizations such as Thermax and Mahindra British Telecom prior to joining us, where he has been key to many of the high-end human resources interventions. He has handled all areas in human resources, with special interest in change management, global human resources strategy, employer branding and leadership capability development. He is an alumnus of St. Stephen s College, Delhi and XLRI Jamshedpur. During his time as a government employee, he handled the entire gamut of human resources and industrial relations issues in the Indian Ordinance Factories. A recipient of several academic and professional awards, he has been on the CII Panel for human resources and industrial relations for Andhra Pradesh.

Amit Patel is Vice President of Corporate Development & Strategic Planning. His responsibilities include chairing our Global Business Development Council, pursuing alliances and M&A, and driving global strategic initiatives to accelerate growth in various businesses and regions. He is also responsible for select long-term strategic business planning efforts and for coordination of external relations activities in North America. Prior to joining us in 2003, Amit was co-founder and CEO of a healthcare services startup called MedOnTime that was later acquired by CTIS, at which he served as Vice President of Corporate Development. Earlier, he was a strategy consultant with Marakon Associates where he focused on value-based management and M&A. He received a Bachelor of Science degree in Economics from the Wharton School of Business at the University of Pennsylvania, a Bachelor of Applied Science degree in Systems Engineering from the Moore School at the University of Pennsylvania, and a Master of Business Administration degree from Harvard Business School.

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Cartikeya Reddy is a Vice President and heads our Biologics division that focuses on the development of biosimilar molecules for the Indian and global markets. Prior to joining us in 2004, he worked with Genentech Inc, where he was a Group Leader in the area of Cell Culture Process Development. Before that, he was with the Biotechnology Division of Bayer Corporation, where he successfully led teams in the areas of Bioprocess Development & Pilot Scale Manufacturing. He holds a Master of Science degree and Ph.D. in Chemical Engineering from the University of Illinois, Urbana-Champaign, and was a Visiting Scholar at the Massachusetts Institute of Technology, Cambridge, USA. He also graduated with a Bachelor of Technology degree in Chemical Engineering from the Indian Institute of Technology, Chennai, India.

6.B. ***Compensation of directors and executive officers***

Directors compensation

Full-Time Directors. The compensation of our Chairman, Chief Executive Officer and Chief Operating Officer (who we refer to as our full-time directors) is divided into salary, commission and benefits. They are not eligible to participate in the stock option plan. The compensation committee of the Board of Directors initially recommends the compensation for full-time directors. If the Board of Directors (the Board) approves the recommendation, it is then submitted to the shareholders for approval at the general shareholders meeting.

On July 28, 2006, our shareholders re-appointed Dr. K. Anji Reddy as Chairman with effect from July 13, 2006 and Mr. G. V. Prasad as Vice Chairman and CEO with effect from January 30, 2006. On May 18, 2007, our Board recommended re-appointment of Mr. Satish Reddy as Managing Director and COO for a period of 5 years. The re-appointment was approved by the shareholders at its meeting on July 24, 2007. Our Managing Director and COO and Vice Chairman and CEO are each entitled to receive a maximum commission of up to 0.75% of our net profit (as defined under the Indian Companies Act, 1956) for the fiscal year. Our Chairman is entitled to receive a maximum commission of up to 1.0% of our net profit (as defined under the Indian Companies Act, 1956) for the fiscal year. The compensation committee, which is composed of independent directors, recommends the commission for our Chairman, Vice Chairman and CEO and Managing Director and COO within the limits of 1%, 0.75% and 0.75%, respectively, of the net profits (as defined under the Indian Companies Act, 1956) for each fiscal year.

Non-Full Time Directors. Each of our non-full time directors receives an attendance fee of Rs.5,000 (U.S.$115.02) for every Board meeting and Board committee meeting they attend. In fiscal 2007, we paid an aggregate of Rs.350,000 (U.S.$8,051.5) to our non-full time directors as attendance fees. Non-full time directors are also eligible to receive a commission on our net profit (as defined under the Indian Companies Act, 1956) for the fiscal year. Our shareholders have approved a maximum commission of up to 0.5% of the net profits (as defined under the Indian Companies Act, 1956) for the fiscal year for all non-full time directors in a year. The Board determines the entitlement of each of the non-full time directors to commission within the overall limit. The non-full time directors were granted stock options under the Dr. Reddy s Employee Stock Option Scheme, 2002 in fiscal 2007 as provided in the table below.

For fiscal 2007, the directors were entitled to the following amounts as compensation:

		Amount Rs. (in thousands)				
Name of Directors	**Attendance fees**	**Commission**	**Salary**	**Perquisites**	**Total**	**Stock Options**
Dr. K. Anji Reddy		139,196	4,384	382	143,962	
Mr. G.V. Prasad		104,400	3,600	679	108,679	
Mr. Satish Reddy		104,400	3,600	679	108,679	
Mr. Anupam Puri	60	2,608			2,668	1,500
Prof. Krishna G. Palepu	40	2,608			2,648	1,500
Dr. Omkar Goswami	80	2,608			2,688	1,500
Mr. P.N. Devarajan	100	2,608			2,708	1,500
Mr. Ravi Bhoothalingam	65	2,608			2,673	1,500

Dr. V. Mohan[1]	5	5	1,500

(1) ceased to be our Director effective July 28, 2006.

The options granted to directors in fiscal 2007 have an exercise price of Rs.5 per option, vest in one year, and expire five years from the date of vesting.

Executive officers compensation

The initial compensation to all our executive officers is determined through appointment letters issued at the time of employment. The appointment letter provides the initial amount of salary and benefits the executive officer will receive as well as a confidentiality provision and a non-compete provision applicable during the course of the executive officer s employment with us. We provide salary,

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certain perquisites, retirement benefits, stock options and variable pay to our executive officers. The compensation committee of the Board reviews the compensation of executive officers on a periodic basis.

All of our employees at the managerial and staff levels are eligible to participate in a variable pay program, which consists of performance bonuses based on the performance of their function or business unit, and a profit sharing plan through which part of our profits can be shared with our employees. Our variable pay program is aimed at rewarding performance of the individual, business unit/function and the organization, with significantly higher rewards for superior performances.

We also have two employee stock option schemes: the Dr. Reddy s Employee Stock Option Scheme, 2002 and the Dr. Reddy s Employees ADR Stock Option Scheme, 2007. The stock option schemes are applicable to all of our employees and directors and employees and directors of our subsidiaries. The stock option schemes are not applicable to promoter directors, promoter employees and persons holding 2% or more of our outstanding share capital. The compensation committee of the Board of Directors awards options pursuant to the stock option schemes based on the employee s performance appraisal. Some employees have also been granted options upon joining us.

Compensation for executive officers who are full time directors is summarized in the table under Directors compensation, above. The following table presents the annual compensation paid for services rendered to us for fiscal 2007 and stock options held by all of our other executive officers as of March 31, 2007:

	Compensation	**Stock Options**			
Name	**Rs.**	**Fiscal Year of Grant**	**No. of options**	**Exercise price**	**Vesting and Expiration Date**
Mr. Abhijit Mukherjee	Rs. 10,517,204	2005	3,200	Rs. 5.00	(1)
		2006	7,500	5.00	(1)
		2007	8,000	5.00	(1)
Mr. Arun Sawhney	12,373,847	2005	9,140	5.00	(1)
		2006	6,000	5.00	(1)
		2007	6,400	5.00	(1)
Mr. Ashwani Kumar Malhotra	8,561,095	2005	6,004	5.00	(1)
		2006	5,250	5.00	(1)
		2007	5,000	5.00	(1)
Mr. Jaspal Singh Bajwa	14,028,455	2005	7,000	5.00	(1)
		2006	7,500	5.00	(1)
		2007	8,000	5.00	(1)
Mr. Jeffrey Wasserstein	22,787.701	2005	15,000	5.00	(1)
		2007	8,000	5.00	(1)
Mr. K.B. Sankara Rao	8,521,312	2005	6,160	5.00	(1)
		2006	6,000	5.00	(1)
		2007	6,400	5.00	(1)
Mr. Mark Hartman	37,378,470	2004	20,000	441.50	(1)
		2005	12,000	442.50	(1)
		2006	12,000	5.00	(1)
		2007	8,000	5.00	(1)
Dr. R. Rajagopalan	8,359,076	2005	7,240	5.00	(1)
		2006	4,500	5.00	(1)
		2007	5,000	5.00	(1)
Mr. Raghu Cidambi	8,200,000	2005	7,000	5.00	(1)
		2006	7,500	5.00	(1)

		2007	5,000	5.00	(1)
Mr. Saumen Chakraborty	11,588,887	2004	5,000	441.50	(1)
		2005	5,100	5.00	(1)
		2006	7,500	5.00	(1)
		2007	8,000	5.00	(1)
Dr. Uday Saxena	18,669,027	2005	7,000	5.00	(1)
		2006	6,000	5.00	(1)
		2007	6,400	5.00	(1)
Mr. V.S. Vasudevan	10,589,454	2003	11,480	531.51	(1)
		2004	20,000	441.50	(1)
		2005	20,000	442.50	(1)
		2006	50,000	362.50	(1)
		2007	8,000	5.00	(1)

(1) The expiration date is five years from the date of vesting. The options vest in annual increments over a period of four years.

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Retirement benefits.

We provide the following benefit plans to our employees:

Gratuity benefits: In accordance with applicable Indian laws, we provide for gratuity, a defined benefit retirement plan (the Gratuity Plan) covering certain categories of employees. The Gratuity Plan provides a lump sum payment to vested employees, at retirement or termination of employment, an amount based on the respective employee s last drawn salary and the years of employment with the Company. Effective September 1, 1999, we established Dr. Reddy s Laboratories Gratuity Fund (the Gratuity Fund). Liabilities with regard to the Gratuity Plan are determined by an actuarial valuation, based upon which we make contributions to the Gratuity Fund. Trustees administer the contributions made to the Gratuity Fund. The amounts contributed to the Gratuity Fund are invested in specific securities as mandated by Indian law and generally consist of federal and state Indian government bonds and the debt instruments of Indian government-owned corporations. The net contribution amounts recognized by us were Rs.21.2 million, Rs.52.3 million and Rs.31.5 million during the years ended March 31, 2005, 2006 and 2007, respectively.

Superannuation benefits. Apart from being covered under the Gratuity Plan described above, our senior officers also participate in superannuation, a defined contribution plan administered by the LIC. We make annual contributions based on a specified percentage of each covered employee s salary. We have no further obligations under the plan beyond our annual contributions. We contributed Rs.27.0 million, Rs.24.8 million and Rs.28.0 million to the superannuation plan during the years ended March 31, 2005, 2006 and 2007, respectively.

Provident fund benefits. In addition to the above benefits, all employees receive benefits from a provident fund, a defined contribution plan. Both the employee and employer each make monthly contributions to the plan each equal to 12% of the covered employee s basic salary. We have no further obligations under the plan beyond our monthly contributions. We contributed Rs.64.2 million, Rs.64.4 million and Rs.75.5 million to the provident fund plan during the years ended March 31, 2005, 2006 and 2007, respectively.

6.C. *Board practices*

Our Articles of Association require us to have a minimum of three and a maximum of 20 directors. As of March 31, 2007, we have eight directors on our Board, of which five are non-full time independent directors.

The Companies Act, 1956 and our Articles of Association require that at least two-thirds of our directors be subject to re-election by our shareholders in rotation. At every annual general meeting, one-third of the directors who are subject to re-election must retire and, if eligible for re-election, may be reappointed at the annual general meeting. Our full time directors are not subject to re-election.

The terms of each of our directors and their expiration dates are provided in the table below.

Name	Expiration of Current Term of Office	Term of Office	Period of Service
Dr. K. Anji Reddy [1]	July 12, 2011	5 years	23 years
Mr. Satish Reddy [1]	September 30, 2007	5 years	14 years
Mr. G.V. Prasad [1]	January 30, 2011	5 years	21 years
Mr. Anupam Puri [2]	Retirement by rotation	Due for retirement by rotation in 2007	5 years
Dr. Krishna G. Palepu [2]	Retirement by rotation	Due for retirement by rotation in 2008	5 years
Mr. P.N. Devarajan [2]	Retirement by rotation	Due for retirement by rotation in 2006	6.5 years
Dr. Omkar Goswami [2]	Retirement by rotation	Due for retirement by rotation in 2007	6.5 years
Mr. Ravi Bhoothalingam [2]	Retirement by rotation	Due for retirement by rotation in 2008	6.5 years
Dr. V. Mohan [2][4]	Retirement by rotation	Due for retirement by rotation in 2006	11 years

(1) Full time director.

(2) Non-full time independent director.

(3) Reappointed at the 22nd Annual General Meeting of Shareholders held on July 28, 2006.

(4) Retired at the 22nd Annual General Meeting of Shareholders held on July 28, 2006.

The terms of the contracts with our full-time directors are also disclosed to all the shareholders in the notice of the general meeting. The directors are not eligible for any termination benefit on the termination of their tenure with us.

Committees of the Board

Committees appointed by the Board focus on specific areas and take decisions within the authority delegated to them. The Committees also make specific recommendations to the Board on various matters from time-to-time. All decisions and recommendations of the Committees are placed before the Board for information or approval. We have seven Board-level Committees:

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Audit Committee.

Compensation Committee.

Nomination Committee.

Shareholders Grievance Committee.

Management Committee.

Investment Committee.

Strategy Committee.

The details of the Audit Committee, Compensation Committee and Nomination Committee are discussed hereunder.

Audit Committee. Our management is primarily responsible for our internal controls and financial reporting process. Our statutory auditors are responsible for performing independent audits of our financial statements in accordance with generally accepted auditing standards and for issuing reports based on such audits. The Board of Directors has entrusted the Audit Committee to supervise these processes and thus ensure accurate and timely disclosures that maintain the transparency, integrity and quality of financial controls and reporting.

The Audit Committee consists of the following five non-full time independent directors:

Dr. Omkar Goswami (Chairman)

Mr. Anupam Puri

Prof. Krishna G. Palepu

Mr. P. N. Devarajan

Mr. Ravi Bhoothalingam

Our Company Secretary is the Secretary of the Audit Committee. This Committee met on four occasions during fiscal 2007. Our statutory auditors were present at all Audit Committee meetings during the year.

The primary responsibilities of the Audit Committee are to:

Supervise the financial reporting process;

Review the financial results, along with the related public filings, before recommending them to the Board;

Review the adequacy of our internal controls, including the plan, scope and performance of our internal audit function;

Discuss with management our major policies with respect to risk assessment and risk management;

Hold discussions with statutory auditors on the nature and scope of audits, and any views that they have about the financial control and reporting processes;

Ensure compliance with accounting standards, and with listing requirements with respect to the financial statements;

Recommend the appointment and removal of external auditors and their fees;

Review the independence of our auditors;

Ensure that adequate safeguards have been taken for legal compliance both for us and for our Indian and foreign subsidiaries;

Review related party transactions; and

Review the functioning of our whistle blower policies and procedures.

Compensation Committee. The Compensation Committee considers and recommends to the Board the compensation of the full time directors and executives above Vice-President level, and also reviews the remuneration package that we offer to different grades/levels of our employees. The Compensation Committee also administers our Employee Stock Option Scheme.

The Compensation Committee consists of the following five non-full time, independent directors:

Mr. Ravi Bhoothalingam (Chairman)

Mr. Anupam Puri

Prof. Krishna G. Palepu

Dr. Omkar Goswami

Mr. P. N. Devarajan

The Chief of Human Resources is the Secretary of the Committee. The Compensation Committee met three times during fiscal 2007.

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Nomination Committee. The primary function of the Nomination Committee is to assist the Board of Directors in fulfilling its responsibilities by reviewing and making recommendations to the Board regarding the Board s composition and structure, establishing criteria for Board membership and evaluating corporate policies relating to the recruitment of Board members and establishing, implementing and monitoring policies and processes regarding principles of corporate governance in order to ensure the Board s compliance with its fiduciary duties.

The Nomination Committee consists of the following five non-full time, independent directors:

Mr. Anupam Puri (Chairman)

Prof. Krishna G. Palepu

Dr. Omkar Goswami

Mr. P. N. Devarajan

Mr. Ravi Bhoothalingam

Our Company Secretary is the Secretary of the Committee. The Nomination Committee met once during fiscal 2007.

Corporate Governance

Companies listed on the New York Stock Exchange (NYSE) must comply with certain standards regarding corporate governance as codified in Section 303A of the NYSE s Listed Company Manual. Listed companies that are foreign private issuers (as such term is defined in Rule 3b-4 under the Securities Exchange Act of 1934, as amended (the Exchange Act)) are permitted to follow home country practice in lieu of the provisions of this Section 303A, except that such companies are required to comply with the requirements of Sections 303A.06, 303A.11 and 303A.12(b) and (c), which are as follows:

(i) establish an independent audit committee that has specified responsibilities;

(ii) provide prompt certification by its chief executive officer of any material non-compliance with any corporate governance rules;

(iii) provide periodic written affirmations to the NYSE with respect to its corporate governance practices; and

(iv) provide a brief description of significant differences between its corporate governance practices and those followed by U.S. companies.

The following table compares our principal corporate governance practices to those required of U.S. NYSE listed companies.

Standard for U.S. NYSE Listed Companies	**Our practice**
Listed companies must have a majority of independent directors, as defined by the NYSE.	We comply with this standard. Seven of our ten directors are independent directors, as defined by the NYSE.
The non-management directors of each listed company must meet at regularly scheduled executive sessions without management.	We comply with this standard. Our non-management directors meet periodically without management directors in scheduled executive sessions.
Listed companies must have a nominating/corporate governance committee composed entirely of independent directors. The nominating/corporate governance committee must have a written charter that	We have a Nomination Committee composed entirely of independent directors which meets these requirements. The committee has a written charter that meets these requirements. We do not have a practice of evaluating

addresses the committee s purpose and responsibilities, subject to the minimum purpose and responsibilities established by the NYSE, and an annual evaluation of the committee.	the performance of the Nomination Committee.
Listed companies must have a compensation committee composed entirely of independent directors. The compensation committee must have a written charter that addresses the committee s purpose and responsibilities, subject to the minimum purpose and responsibilities established by the NYSE, and an annual evaluation of the committee.	We have a Compensation Committee composed entirely of independent directors which meets these requirements. The committee has a written charter that meets these requirements. We do not have a practice of evaluating the performance of our Compensation Committee.

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Standard for U.S. NYSE Listed Companies	Our practice
Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act.	Our Audit Committee satisfies the requirements of Rule 10A-3 under the Exchange Act.
The audit committee must have a minimum of three members all being independent directors. The audit committee must have a written charter that addresses the committee s purpose and responsibilities, subject to the minimum purpose and responsibilities established by the NYSE, and an annual evaluation of the committee.	We have an Audit Committee composed of five members, all being independent directors. The committee has a written charter that meets these requirements. We also have an internal audit function. We do not have a practice of evaluating the performance of our Audit Committee.
Each listed company must have an internal audit function.	
Shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions thereto, with limited exceptions.	We comply with this standard. Our Employee Stock Option Plan was approved by our shareholders.
Listed companies must adopt and disclose corporate governance guidelines.	We have not adopted corporate governance guidelines.
All listed companies, U.S. and foreign, must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.	We comply with this standard. More details on our Code of Business Conduct and Ethics are given under Item 16.B.
Listed foreign private issuers must disclose any significant ways in which their corporate governance practices differ from those followed by domestic companies under NYSE listing standards.	This requirement is being addressed by way of this table.
Each listed company CEO must certify to the NYSE each year that he or she is not aware of any violation by the company of NYSE corporate governance listing standards, qualifying the certification to the extent necessary.	We filed our most recent written certification on October 11, 2006.
Each listed company CEO must promptly notify the NYSE in writing after any executive officer of the listed company becomes aware of any material non-compliance with any applicable provisions of this Section 303A.	There are no such instances.
Each listed company must submit an executed Written Affirmation annually to the NYSE. In addition, each listed company must submit an interim Written	We filed our most recent written affirmation on October 11, 2006.

Affirmation each time a change occurs to the board or any of the committees subject to Section 303A. The annual and interim Written Affirmations must be in the form specified by the NYSE.

6.D. ***Employees***

The following table sets forth the number of our employees during fiscal 2005, 2006 and 2007.

For the Fiscal Year Ended March 31, 2007

	North America	Europe	Rest of the World	Total
Manufacturing[(1)]		29	3,566	3,595
Sales and Marketing[(2)]	21	299	2,546	2,866
Research and Development	18	158	1,381	1,557
Others[(3)]	58	24	920	1,002
Total	97	510	8,413	9,020

For the Fiscal Year Ended March 31, 2006

	North America	Europe	Rest of the World	Total
Manufacturing[(1)]		56	2,841	2,897
Sales and Marketing[(2)]	27	291	2,268	2,586
Research and Development	19		1,167	1,186
Others[(3)]	32	129	695	856
Total	78	476	6,971	7,525

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For the Fiscal Year Ended March 31, 2005

	North America	Europe	Rest of the World	Total
Manufacturing[1]		45	2,517	2,562
Sales and Marketing[2]	21	4	1,833	1,858
Research and Development	15	2	1,106	1,123
Others[3]	45	13	534	592
Total	81	64	5,990	6,135

(1) Includes quality, technical services and warehouse.

(2) Includes business development.

(3) Includes shared services, corporate business development and the intellectual property management team.

We have not experienced any material work stoppages in the last three fiscal years and we consider our relationship with our employees and labor unions to be good. Approximately 10% of our employees belong to labor unions. We did not experience any strikes at our manufacturing facilities in fiscal 2007.

6.E. ***Share ownership***

The following table sets forth, as of March 31, 2007 for each of our directors and executive officers, the total number of our equity shares and options owned by them:

Name	**No. of shares held[1],[3]**	**% of outstanding capital**	**No. of options held**	**Fiscal Year of the Grant**		**Exercise price**	**Expiration date**
Dr. K. Anji Reddy[2],[4]	800,956	0.48%					
Mr. G.V. Prasad[4]	1,365,940	0.81%					
Mr. Satish Reddy[4]	1,205,832	0.72%					
Mr. Anupam Puri	5,500		4,500	2006	Rs.	5.00	(5)
			3,000	2007		5.00	(6)

Prof. Krishna G Palepu	2,500		4,500	2006	5.00	(5)
			3,000	2007	5.00	(6)
Dr. Omkar Goswami	1,500		4,500	2006	5.00	(5)
			3,000	2007	5.00	(6)
Mr. P.N. Devarajan	1,700		4,500	2006	5.00	(5)
			3,000	2007	5.00	(6)
Mr. Ravi Bhoothalingam	1,500		4,500	2006	5.00	(5)
			3,000	2007	5.00	(6)
Mr. Abhijit Mukherjee	5,700		3,200	2005	5.00	(5)
			7,500	2006	5.00	(5)
			8,000	2007	5.00	(5)
Mr. Arun Sawhney	16,620	0.01%	9,140	2005	5.00	(5)
			6,000	2006	5.00	(5)
			6,400	2007	5.00	(5)
Mr. Ashwani Kumar Malhotra	10,562		6,004	2005	5.00	(5)
			5,250	2006	5.00	(5)
			5,000	2007	5.00	(5)
Mr. Jaspal Singh Bajwa	11,500	0.01%	7,000	2005	5.00	(5)
			7,500	2006	5.00	(5)
			8,000	2007	5.00	(5)
Mr. Jeffrey Wasserstein			15,000	2005	5.00	(5)
			8,000	2007	5.00	(5)
Mr. K.B. Sankara Rao	42,324	0.03%	6,160	2005	5.00	(5)
			6,000	2006	5.00	(5)
			6,400	2007	5.00	(5)
Mr. Mark Hartman			20,000	2004	441.50	(5)
			12,000	2005	442.50	(5)
			12,000	2006	5.00	(5)
			8,000	2007	5.00	(5)
Dr. R. Rajagopalan	13,620		7,240	2005	5.00	(5)
			4,500	2006	5.00	(5)
			5,000	2007	5.00	(5)
Mr. Raghu Cidambi	11,500	0.01%	7,000	2005	5.00	(5)
			7,500	2006	5.00	(5)
			5,000	2007	5.00	(5)
Mr. Saumen Chakraborty	21,800	0.01%	5,000	2004	441.50	(5)
			5,100	2005	5.00	(5)
			7,500	2006	5.00	(5)

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Name	No. of shares held[1],[3]	% of outstanding capital	No. of options held	Fiscal Year of the Grant	Exercise price	Expiration date
			8,000	2007	5.00	(5)
Dr. Uday Saxena	40,000	0.02%	7,000	2005	5.00	(5)
			6,000	2006	5.00	(5)
			6,400	2007	5.00	(5)
Mr. V.S. Vasudevan			11,480	2003	531.51	(5)
			20,000	2004	441.50	(5)
			20,000	2005	442.50	(5)
			50,000	2006	362.50	(5)
			8,000	2007	5.00	(5)

(1) Shares held in their individual name only.

(2) Does not include shares held beneficially. See Item 7.A. for beneficial ownership of shares by this individual.

(3) All shares have voting rights.

(4) Not eligible for grant of Stock Options.

(5) The expiration date is five years from the date of vesting. The options vest in annual increments over a period of four years.

(6)

The expiration date is five years from the date of vesting. The options vest in one year.

Employee Stock Incentive Plans

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

We instituted the DRL 2002 Plan for all eligible employees in pursuance of the special resolution approved by the shareholders in the Annual General Meeting held on September 24, 2001. The DRL 2002 Plan covers all employees of us and each of our subsidiaries. Under the DRL 2002 Plan, the Compensation Committee of the Board (the Compensation Committee) administers the DRL 2002 Plan and grants stock options to eligible employees of us and our subsidiaries. The Compensation Committee determines the employees eligible for receiving the options, the number of options to be granted, the exercise price, the vesting period and the exercise period. The vesting period is determined for all options issued on the date of the grant.

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

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

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

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

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

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

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

After the stock dividend on August 30, 2006 (in which we distributed one equity share for each equity share and ADS issued and outstanding as of August 29, 2006), the options authorized and outstanding under the DRL 2002 Plan were as follows:

Particulars	Number of options granted under Category A	Number of options granted under Category B	Total
Options authorized for issuance under original Plan	300,000	1,995,478	2,295,478
Options exercised prior to stock dividend date of August 30, 2006 (A)	94,061	147,793	241,854
Balance of shares that can be issued upon the exercise of outstanding options (B)	205,939	1,847,685	2,053,624
Options arising from stock dividend (C)	205,939	1,847,685	2,053,624
Options authorized for issuance after stock dividend (A+B+C)	505,939	3,843,163	4,349,102

Stock option activity under the DRL 2002 Plan in the two categories of options (i.e., fair market value and par value options) was as follows:

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Category A - Fair Market Value Options

Fiscal Year Ended March 31, 2005

	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted-average remaining contractual life (months)
Outstanding at the beginning of the year	1,822,076	Rs. 441.5-698	Rs. 484.48	66
Granted during the year	933,000	373.5-442.5	436.41	82
Expired / forfeited during the year	(705,314)	382.5-531.51	459.42	
Surrendered by employees during the year in exchange of category B options	(1,451,862)	373.5-698	464.04	
Exercised during the year				
Outstanding at the end of the year	597,900	373.5-574.5	488.66	50
Exercisable at the end of the year	377,076	Rs. 441.5-574.5	Rs. 498.27	35

Category A - Fair Market Value Options

Fiscal Year Ended March 31, 2006

	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted-average remaining contractual life (months)
Outstanding at the beginning of the year	597,900	Rs. 373.5-574.50	Rs. 488.66	50
Granted during the year	65,000	362.50	362.50	81
Expired / forfeited during the year	(93,400)	362.5-574.50	472.18	
Surrendered by employees during the year	(180,000)	488.65-531.51	517.23	
Exercised during the year	(155,000)	441.5-488.65	471.92	
Outstanding at the end of the year	234,500	362.5-531.51	439.43	64
Exercisable at the end of the year	75,764	Rs. 362.5-531.51	Rs. 471.93	45

Category A - Fair Market Value Options

Fiscal Year Ended March 31, 2007

	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted-average remaining contractual life (months)
Outstanding at the beginning of the year	234,500	362.5-531.51	439.43	64

Granted during the year				
Expired / forfeited during the year	(11,600)	441.5-574.5	527.8	
Exercised during the year	(31,320)	441.5-531.51	477.4	
Outstanding at the end of the year	191,580	362.5-531.51	427.9	54
Exercisable at the end of the year	103,680	Rs. 362.5-531.51	Rs. 447.58	38

Category B - Par Value Options

Fiscal Year Ended March 31, 2005

	Shares arising out of options	**Range of exercise prices**	**Weighted-average exercise price**	**Weighted-average remaining contractual life (months)**
Outstanding at the beginning of the year				
Granted during the year				
In exchange for category A surrendered options	561,746	Rs. 5	Rs. 5	84
New options	205,300	5	5	84
Forfeited during the year	(7,948)	5	5	
Exercised during the year				
Outstanding at the end of the year	759,098	Rs. 5	Rs. 5	84
Exercisable at the end of the year				

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Category B - Par Value Options	Fiscal Year Ended March 31, 2006			
	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted-average remaining contractual life (months)
Outstanding at the beginning of the year	759,098	Rs. 5	Rs. 5	84
Granted during the year	433,720	5	5	81
Forfeited during the year	(266,608)	5	5	
Exercised during the year	(196,242)	5	5	
Outstanding at the end of the year	729,968	5	5	81
Exercisable at the end of the year	36,272	Rs. 5	Rs. 5	59

Category B - Par Value Options	Fiscal Year Ended March 31, 2007			
	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted-average remaining contractual life (months)
Outstanding at the beginning of the year	729,968	Rs. 5	Rs. 5	81
Granted during the year	427,060	5	5	81
Forfeited during the year	(76,056)	5	5	
Exercised during the year	(191,720)	5	5	
Outstanding at the end of the year	889,252	5	5	77
Exercisable at the end of the year	43,256	Rs. 5	Rs. 5	51

The weighted average grant date fair value of options granted under the DRL 2002 Plan at fair market value during the years ended March 31, 2005 and 2006 was Rs. 377.60 and Rs.293.42, respectively. The weighted average grant date fair value for options granted under the DRL 2002 Plan at par value during the years ended March 31, 2005, 2006 and March 31, 2007 was Rs.707.40, Rs.705.88 and Rs.575.36, respectively.

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

We instituted the DRL 2007 Plan for all eligible employees in pursuance of the special resolution approved by the shareholders in the Annual General Meeting held on July 27, 2005. The DRL 2007 Plan became effective upon its approval by the Board of Directors on January 22, 2007. The DRL 2007 Plan covers all of our employees and all employees and directors of our subsidiaries. Under the DRL 2007 Plan, the Compensation Committee of the Board (the Compensation Committee) administers the DRL 2007 Plan and grants stock options to eligible employees of us and eligible employees and directors of our subsidiaries. The Compensation Committee determines the employees eligible to receive options, the number of options to be granted, the exercise price, the vesting period and the exercise period. The vesting period is determined for all options issued on the date of the grant. No options were granted under

this plan in fiscal 2007.

Aurigene Discovery Technologies Limited ESOP Plan 2003.

Aurigene Discovery Technologies Limited (Aurigene), a consolidated subsidiary, adopted the Aurigene Discovery Technologies Limited Employee Stock Option Plan (the Aurigene Employee Plan) to provide for issuance of stock options to employees of Aurigene and its subsidiary, Aurigene Discovery Technologies Inc., who have completed one full year of service with Aurigene and its subsidiary. Aurigene has reserved 4,550,000 of its ordinary shares for issuance under this plan. Under the Aurigene Employee Plan, stock options may be granted at an exercise price as may be determined by Aurigene s compensation committee. As of March 31, 2007, there were 1,183,583 stock options outstanding under the Aurigene Employee Plan.

Aurigene Discovery Technologies Limited, Management Group Stock Grant Plan.

In fiscal 2004, Aurigene adopted the Aurigene Discovery Technologies Limited Management Group Stock Grant Plan (the Aurigene Management Plan) to provide for issuance of stock options to management employees of Aurigene and its subsidiary Aurigene Discovery Technologies Inc. Aurigene has reserved 2,950,000 of its ordinary shares for issuance under this plan. Under the Aurigene Management Plan, stock options may be granted at an exercise price as may be determined by Aurigene s compensation committee. As of March 31, 2007, there were no stock options outstanding under the Aurigene Management Plan.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

7.A. *Major shareholders*

All of our equity shares have the same voting rights. A total of 25.18% of our equity shares are held by the following parties:

Dr. K. Anji Reddy (Chairman),

Mr. G .V. Prasad (Executive Vice Chairman and Chief Executive Officer),

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Mr. Satish Reddy (Managing Director and Chief Operating Officer),

Mrs. K. Samrajyam, wife of Dr. K. Anji Reddy, and Mrs. G. Anuradha, wife of Mr. G.V. Prasad (hereafter collectively referred as the Family Members), and

Dr. Reddy s Holdings Private Limited (a company in which Dr. K. Anji Reddy owns 40% of the equity and the remainder is held by Mr. G.V. Prasad, Mr. Satish Reddy and the Family Members)

The following table sets forth information regarding the beneficial ownership of our shares by the foregoing persons as of March 31, 2007:

	Equity Shares Beneficially Owned (1)	
Name	**Number of Shares**	**Percentage of Shares**
Dr. K. Anji Reddy(2)	38,599,246	22.99%
Mr. G.V. Prasad	1,365,940	0.81%
Mr. Satish Reddy	1,205,832	0.72%
Family Members	1,116,856	0.67%
Subtotal	**42,287,874**	**25.18%**
Others/public float	125,624,306	74.82%
Total number of shares outstanding	**167,912,180**	**100.00%**

(1) Beneficial ownership is determined in accordance with rules of the U.S. Securities and Exchange Commission, which provides that shares are beneficially owned by any person who has or shares voting or investment power with respect to the shares. All information with respect to the beneficial ownership of any principal shareholder has been furnished

by that shareholder and, unless otherwise indicated below, we believe that persons named in the table have sole voting and sole investment power with respect to all shares shown as beneficially owned, subject to community property laws where applicable.

(2) Dr. Reddy s Holdings Private Limited owns 37,798,290 equity shares of Dr. Reddy s Laboratories Limited. Dr. K. Anji Reddy owns 40% of Dr. Reddy s Holdings Private Limited. The remainder is owned by Mr. G.V. Prasad, Mr. Satish Reddy and the Family Members. The entire amount beneficially owned by Dr. Reddy s Holdings Private Limited is included in the amount shown as beneficially

owned by Dr. K. Anji Reddy.

As otherwise stated above and to the best of our knowledge, we are not owned or controlled directly or indirectly by any government or by any other corporation or by any other natural or legal persons. We are not aware of any arrangement, the consummation of which may at a subsequent date result in a change in our control.

The following shareholders hold more than 5% of our equity shares as of March 31, 2007:

Name	March 31, 2007		March 31, 2006		March 31, 2005	
	No. of equity shares held	% of equity shares held	No. of equity shares held[1]	% of equity shares held	No. of equity shares held[1]	% of equity shares held
Dr. Reddy s Holdings Pvt. Limited	37,798,290	22.51	37,786,490	24.64	35,755,460	23.36
Life Insurance Corporation of India	13,323,325	7.93	10,312,022	6.72	14,710,096	9.61

(1) Our Board of Directors, at its meeting held on May 31, 2006, recommended the issuance of a stock dividend in the ratio of 1:1, which was approved by the shareholders in the Annual General Meeting held on July 28, 2006. The Board paid the above stock dividend on August 30, 2006 to all of our shareholders of record on August 29, 2006. Accordingly, the number of equity shares held as on March 31, 2006 and 2005 have been adjusted to reflect the above stock dividend.

As of March 31, 2007, we had 167,912,180 outstanding equity shares. As of March 31, 2007, there were 102,615 record holders of our equity shares listed and traded on the Indian stock exchanges. Our American Depositary Shares (ADSs) are listed on the New York Stock Exchange. One ADS represents one equity share of Rs.5 par value per share. As of March 31, 2007, 16.60% of our issued and outstanding equity shares were held by ADS holders. On March 31, 2007 we had approximately 22,470 ADS holders on record in the United States.

7.B. ***Related party transactions***

We have entered into transactions with the following related parties:

Diana Hotels Limited for hotel services;

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AR Chlorides for processing services of raw materials and intermediates;

Dr. Reddy s Holdings Private Limited for purchase and sale of active pharmaceutical ingredients and intermediates;

Madras Diabetes Research Foundation for undertaking research on our behalf;

Dr. Reddy s Heritage Foundation for purchase of services;

SR Enterprises for transportation services; and

Manava Seva Dharma Samvardhani Trust for social contribution to which we have made contributions..

Our directors have either a significant ownership interest, controlling interest or exercise significant influence over these entities (significant interest entities).

We have also engaged in transactions with our two affiliates, Perlecan Pharma Private Limited (Perlecan Pharma) and Reddy Kunshan Rotam Reddy Pharmaceuticals Co. Limited (Reddy Kunshan). These transactions are in the nature of Perlecan Pharma s reimbursement of research and development expenses, Perlecan Pharma s payment to us for ongoing research services which we have performed for Perlecan Pharma and our purchase of active pharmaceutical ingredients from Reddy Kunshan. We have also entered into transactions with our employees and directors and their relatives.

One of the Company s former executives and U.S. general counsel (resigned effective July 31, 2006), is a shareholder of a law firm that we engage for provision of legal services. Legal fees paid by us to this law firm were Rs.468.8 million, Rs.466.6 million and Rs.153.6 million (until the date of his resignation) during the years ended March 31, 2005, 2006 and 2007, respectively.

The following is a summary of significant related party transactions:

	Fiscal Year Ended March 31,		
	2005	2006	2007
		(Thousands)	
Purchases from:			
Significant interest entities	Rs. 45,239	Rs. 182,870	Rs. 294,773
Affiliates	39,278	5,410	
Sales to:			
Significant interest entities	1,055	32,255	
Affiliates			139,335
Reimbursement of expenses from affiliates			372,643
Lease rental paid under cancelable operating leases to:			
Directors and their relatives	17,144	18,927	21,884
Administrative expenses paid to:			
Significant interest entities	4,649	7,401	9,227

We had the following amounts due from related parties:

	As of March 31,	
	2006	2007
	(Thousands)	
Significant interest entities	Rs. 6,084	

Directors and their relatives	4,380	4,380
Employee loans (interest free)	7,537	2,426
Affiliates	234,541	143,136
	Rs. 252,242	Rs. 149,942

We had the following amounts due to related parties:

	As of March 31,	
	2006	**2007**
	(Thousands)	
Significant interest entities	Rs. 18,958	Rs. 871
Payable towards legal fees	131,392	
Directors and their relatives	1,328	
	Rs. 151,678	Rs. 871

As of March 31, 2007, the required repayments of employee loans are given below:

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Repayable in the year ending March 31:	(Thousands)
2008	Rs. 1,951
2009	313
2010	130
2011	32
2012	
Thereafter	
	Rs. 2,426

7.C. ***Interests of experts and counsel***

Not applicable.

ITEM 8. FINANCIAL INFORMATION

8.A. ***Consolidated statements and other financial information***

The following financial statements and auditors report for fiscal 2007 are incorporated herein by reference and are included in Item 18 of this report on Form 20-F:

Report of Independent Registered Public Accounting Firm.

Consolidated Balance Sheets as of March 31, 2006 and 2007.

Consolidated Statements of Operations for the years ended March 31, 2005, 2006 and 2007.

Consolidated Statements of Stockholders Equity and Comprehensive Income for the years ended March 31, 2005, 2006 and 2007.

Consolidated Statements of Cash Flow for the years ended March 31, 2005, 2006 and 2007.

Notes to the Consolidated Financial Statements.

Amount of Export Sales

For the fiscal year ended March 31, 2007, our export revenues were Rs. 55,916.5 million, contributing 85.9% to our total revenues.

Legal Proceedings

Patent Challenges

At times, following our determination that an innovator s patent is invalid or not infringed by our products, we seek to develop generic products for sale prior to patent expiration in various countries. In the United States, to obtain generic approval for a product prior to the expiration of the innovator s patent, we challenge the innovator s patent. As a result of invoking such patent challenge procedures, in the ordinary course of business we often become a party to, and expect to continue to be involved in, patent litigation regarding the validity or infringement of innovator patents. In addition, in the ordinary course of business we are, and expect to continue to be, a party to patent litigation involving the extent to which manufacturing process techniques may infringe on innovator or third party process patents.

Environmental Litigation

The Indian Council for Environment Legal Action (the Council) filed a writ petition in 1989 under Article 32 of the Indian Constitution against the Union Government and others in the Supreme Court of India. Two hundred twenty five industries in and around Hyderabad, India, including four API manufacturing units belonging to us, are respondents. The Council is seeking relief in the nature of an order directing the Union and the State Government to avert pollution and compensate those affected by such pollution. The Supreme Court of India issued certain directions and sent the writ to the Andhra Pradesh High Court (the High Court). Presently the writ is pending before the High

Court.

We believe it will be some time before there is a resolution of this environmental litigation as a large number of industries are respondents. We believe that we have been maintaining our effluent treatment plants as per the prescribed norms and the effluents are within the limits prescribed by the environmental authorities. We will continue to upgrade our effluent treatment plants and also comply with any additional directives that may be issued from time to time by the Pollution Control Board and/or by the High Court.

The total compensation that we have paid to date at the direction of the High Court is Rs.2,013,000. Such payments were made

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during fiscal years 1993, 1994, 1996, 1997, 2001 and 2004 and have been charged to our income statement in the year of payment. Such payments were made in full to the extent demanded from us by the High Court. Although the matter is still pending before the courts, in consultation with our external legal counsel in India, we consider the possibility of additional liability to be remote. We cannot estimate our loss or liability in the event that we are unsuccessful in this litigation. Even if we are discharged from this litigation, the amount already paid to the High Court will not be returned to us.

Norfloxacin litigation

We manufacture and distribute norfloxacin, a formulations product. Under the Drugs (Prices Control) Order, 1995 (DPCO), the government of India has the authority to designate a pharmaceutical product as a specified product and to fix the maximum selling price for such product.

In 1995, the government of India issued a notification and designated norfloxacin as a specified product and fixed the maximum selling price. In 1996, we filed a statutory Form III before the government of India for the upward revision of the maximum selling price and a legal suit in 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 earlier granted an interim order in our favor, however it subsequently dismissed the case in April 2004. We filed a review petition in the High Court in April 2004 which was also dismissed by the High Court in October 2004. Subsequently, we appealed to the Supreme Court of India, New Delhi (the Supreme Court) by filing a Special Leave Petition. The appeal is currently pending with the Supreme Court.

During fiscal 2006, we received a notice from the government of India demanding the recovery of the price we charged for norfloxacin in excess of the maximum selling price fixed by the government of India, amounting to Rs.284.98 million including interest thereon. We filed a writ petition in the High Court challenging the government of India s demand order. The High Court has admitted the writ petition and granted an interim order, however it ordered us to deposit 50% of the principal amount claimed by the government of India, which amounts to Rs.77.1 million. We deposited this amount with the government of India on November 14, 2005 while we await the outcome of our appeal with the Supreme Court. The Company has provided fully against the potential liability in respect of the principal amount demanded and believes that the possibility of any liability that may arise on account of interest and penalties is remote.

In the event that we are unsuccessful in the litigation in the Supreme Court, we will be required to remit the sale proceeds in excess of the maximum selling price to the Indian government and penalties or interest, if any, the amounts of which are not readily ascertainable.

Excise litigation

During fiscal 2003, 2005 and 2006, the Indian Central Excise authorities (the Authorities) issued a total of three demand notices on one of our vendors with regard to the assessable value of the products it supplied to us, and imposed a total of approximately Rs.435.26 million in claims and penalties against such vendor. We were named as a co-defendant in the notices given during fiscal 2003 and 2005 and, as a result, the Authorities assessed claims and penalties against us in an aggregate amount of Rs.76.50 million. We filed appeals against these notices.

On August 31, 2006 and September 30, 2006 we attended the hearings concluded by the Customs, Excise and Service Tax Appellate Tribunal (CESTAT) on the matter. On October 31, 2006, the CESTAT passed an order in our favor setting aside all the above demands. On July 20, 2007, the Authorities appealed against the order in the Supreme Court.

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Fexofenadine litigation

In April 2006, we launched fexofenadine hydrochloride 30 mg, 60 mg and 180 mg tablet products, which are generic versions of Sanofi-Aventis (Aventis) Allegra® tablets. According to ORG IMS in its June Moving Annual Total report, Allegra® tablets had annual sales of approximately U.S.$1.24 billion for the 12-month period ended March 2006. We are currently defending patent infringement actions brought by Aventis in the United States District Court for the District of New Jersey. There are three formulation patents, three use patents, and two active pharmaceutical ingredient (API) patents that are the subject matter of litigation concerning our fexofenadine hydrochloride tablets. We have obtained summary judgment as to each of the formulation patents.

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

Pharma LLC litigation

In March 2000, Dr. Reddy s Laboratories Inc. (DRLI), a consolidated subsidiary, acquired 25% of its common stock held by a minority shareholder (Pharma, LLC) for a cash consideration of Rs.1.072 million, which was accounted for by the purchase method. The terms of the Stock Redemption Agreement dated March 2000 and Amendment to Stock Purchase Agreement dated March 2002 also provide for contingent consideration not to exceed U.S.$14.0 million over the ten years following such purchase based on sales of certain of our products. Such payments would be recorded as goodwill in the period in which the contingency is resolved in accordance with the consensus reached by the EITF on Issue 95-8, *Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination*. Accordingly, as of March 31, 2007, an amount of Rs.452.7 million (U.S.$10.4 million) has been paid towards such contingent consideration and recorded as goodwill on achievement of such specified milestones.

In August 2006, we received a letter from Pharma, LLC alleging that sales of certain products were excluded by us from our calculation of gross revenue in computing the amount payable to Pharma, LLC. We have responded, stating that the referenced products, being the authorized generic products of the partnering innovator company, are not DRLI s products and therefore fall within the definition of excluded products. Accordingly, we have rejected Pharma, LLC s claim for its share of consideration from sale of these products. Subsequently, in October, 2006, Pharma, LLC instituted an arbitration proceeding under the Stock Redemption Agreement, as amended. If we are not able to successfully defend our position, the maximum potential estimated liability towards the claim made by Pharma, LLC could accelerate the payment of contingent consideration, within the overall limit of U.S.$14.0 million described above.

Fosamax writ petition

In March 2007, the European patent for Fosamax (Merck & Co. s brand name for alendronate sodium), which we and several other companies sell generic versions of in Germany, was reinstated in favor of Merck & Co. betapharm has filed protective writs to prevent a preliminary injunction without a hearing. As of March 31, 2007, no injunction had been granted to Merck & Co. Based on a legal evaluation, we continue selling our generic version of the product and believe that the European patent reinstatement does not affect our ability to sell our generics version of the product. We do not believe that the patent reinstatement will have a material adverse effect on our financial position, results of operations or cash flows in any given accounting period.

Others

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Additionally, we are involved in other lawsuits, claims, investigations and proceedings, including patent and commercial matters, which arise in the ordinary course of business. However, there are no such matters pending that we expect to be material in relation to our business.

Dividend Policy

In the fiscal years ended March 31, 2005, 2006 and 2007, our shareholders declared cash dividends of Rs.5, Rs.5 and Rs.3.75, respectively, per equity share. Every year our Board of Directors recommends the amount of dividends to be paid to shareholders, if any, based upon conditions then existing, including our earnings, financial condition, capital requirements and other factors.

Holders of ADSs will be entitled to receive dividends payable on equity shares represented by such ADSs. Cash dividends on equity shares represented by ADSs are paid to the Depositary in Indian rupees and are converted by the Depositary into U.S. Dollars and distributed, net of depositary fees, taxes, if any, and expenses, to the holders of such ADSs.

8.B. ***Significant changes***

In September 2007, U.S. FDA granted final approval for our ANDA for ranitidine (our generic version of Zantac) 150mg tablet for over-the-counter sales. We were the only generic manufacturer to receive U.S. FDA approval for this product following the expiration of the innovator s patents. This was the first approval for our U.S. OTC business unit to launch a store brand OTC division in the United States.

Except as otherwise disclosed in this annual report, there has been no significant change in our financial position since March 31, 2007.

ITEM 9. THE OFFER AND LISTING

9.A. ***Offer and listing details***

Information Regarding Price History

The following tables set forth the price history for our shares on the Bombay Stock Exchange Limited, (BSE) and for our ADSs on the New York Stock Exchange (NYSE).

	BSE		NYSE	
	Price Per Equity Share(1)		Price Per ADS(1)	
Fiscal Year Ended March 31,	High (Rs.)	Low (Rs.)	High ($)	Low ($)
2007	877	608.00	19.06	12.31
2006	756.50	306.50	16.67	7.46
2005	501.45	326.25	12.40	7.53
2004	735.00	404.00	16.53	8.79
2003	574.95	337.50	12.00	6.65

	BSE		NYSE	
	Price Per Equity Share(1)		Price Per ADS(1)	
Quarter Ended	High (Rs.)	Low (Rs.)	High ($)	Low ($)
June 30, 2005	381.00	306.50	8.80	7.46
September 30, 2005	432.50	362.50	9.85	8.50
December 31, 2005	495.00	390.75	11.10	8.81
March 31, 2006	756.50	475.00	16.67	10.90
June 30, 2006	877.00	579.00	19.06	12.31
September 30, 2006	758.50	700.00	16.06	15.05
December 31, 2006	840.00	701.00	18.54	15.25
March 31, 2007	835.00	608.00	18.70	13.85

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	BSE		NYSE	
	Price Per Equity Share(1)		Price Per ADS(1)	
Month Ended	High (Rs.)	Low (Rs.)	High ($)	Low ($)
October 31,2006	774.00	701.00	17.25	15.25
November 30, 2006	820.00	709.00	18.03	15.75
December 31, 2006	840.00	738.25	18.54	16.61
January 31, 2007	835.00	735.00	18.70	16.55
February 28, 2007	755.70	630.00	17.33	14.76
March 31, 2007	734.95	608.00	16.65	13.85

Source: www.bseindia.com and www.adr.com, respectively.

(1) Stock prices per share reflect a stock dividend, effective on August 30, 2006, of one equity share for each equity share held by our shareholders as of August 29, 2006.

9.B. Plan of distribution

Not applicable.

9.C. *Markets*

Markets on Which Our Shares Trade

Our equity shares are traded on the Bombay Stock Exchange Limited (BSE) and National Stock Exchange of India Limited (NSE), or collectively, the Indian Stock Exchanges. Our American Depositary Shares (or ADSs), as evidenced by American Depositary Receipts (or ADRs), are traded in the United States on the New York Stock Exchange (NYSE), under the ticker symbol RDY. Each ADS represents one equity share. Our ADSs began trading on the NYSE on April 11, 2001. Our shareholders approved the delisting of our shares from the Hyderabad Stock Exchange Limited, The Stock Exchange, Ahmedabad, The Madras Stock Exchange Limited, and The Calcutta Stock Exchange Association Limited at the general body meeting held on August 25, 2003.

9.D. *Selling shareholders*

Not applicable.

9.E. *Dilution*

Not applicable.

9.F. *Expenses of the issue*

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

10.A. *Share capital*

Not applicable.

10.B. *Memorandum and articles of association*

Dr. Reddy s Laboratories Limited was incorporated under the Indian Companies Act, 1956. We are registered with the Registrar of Companies, Andhra Pradesh, and Hyderabad, India as Company No. 4507 (Company Identification No. U85195AP1984PTC0004507). Our registered office is located at 7-1-27, Ameerpet, Hyderabad 500 016, India and the telephone number of our registered office is +91-40-23731946. The summary of our Articles of Association

and Memorandum of Association that is included in our registration statement on Form F-1 filed with the U.S. Securities and Exchange Commission s (the SEC) on April 11, 2001, together with copies of the Articles of Association and Memorandum of Association that are included in our registration statement on Form F-1, are incorporated herein by reference.

The Memorandum and Articles of Association were amended at the 17th Annual General Meeting held on September 24, 2001, 18th Annual General Meeting held on August 26, 2002 and 20th Annual General Meeting held on July 28, 2004 and 22nd Annual General Meeting held on July 28, 2006. A full description of these amendments was given in the Form 20-F filed with the SEC on September 30, 2003, September 30, 2004 and October 2, 2006, which description is incorporated herein by reference. The Memorandum and Articles of Association were further amended at the 22nd Annual General Meeting held on July 28, 2006 to increase the authorised share capital in connection with the stock dividend that occurred on August 30, 2006.

10.C. ***Material contracts***

In March 2006, we entered into an agreement by which we acquired betapharm in Germany. This acquisition was completed in

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March 2006. The share purchase agreement was filed as Exhibit 4.3 to our Annual Report on Form 20-F filed on October 2, 2006 and incorporated herein by reference.

Other than the contract mentioned above and other contracts entered into in the ordinary course of business, there are no material contracts to which we or any of our direct and indirect subsidiaries is a party for the two years immediately preceding the date of this Form 20-F.

10.D. ***Exchange controls***

Foreign investment in Indian securities, whether in the form of foreign direct investment or in the form of portfolio investment, is governed by the Foreign Exchange Management Act, 1999, as amended (FEMA), and the rules, regulations and notifications issued thereunder. Set forth below is a summary of the restrictions on transfers applicable to both foreign direct investments and portfolio investments, including the requirements under Indian law applicable to the issuance and transfer of ADSs.

Foreign Direct Investment

The Foreign Direct Investment Policy under the Reserve Bank of India s (RBI) Automatic Route enables Indian companies (other than those specifically excluded in the scheme) to issue shares to persons who reside outside of India without prior permission from the RBI, except in cases where there are ceilings of investments in certain industry sectors and subject to certain conditions.

The Department of Industrial Policy and Promotion, a part of the Ministry of Commerce and Industry, issued detailed guidelines in January 1997 for consideration of foreign direct investment proposals by the Foreign Investment Promotion Board (the Guidelines). The basic objective of the Guidelines is to improve the transparency and objectivity of the Foreign Investment Promotion Board s consideration of proposals. However, since these are administrative guidelines and have not been codified as either law or regulations, they are not legally binding with respect to any recommendation made by the Foreign Investment Promotion Board or with respect to any decision taken by the government of India in cases involving foreign direct investment.

Under the Guidelines, sector specific guidelines for foreign direct investment and the levels of permitted equity participation have been established. In February 2000, the Department of Industrial Policy and Promotion issued a notification that foreign ownership of up to 50%, 51%, 74% or 100%, depending on the category of industry, would be allowed without prior permission of the Foreign Investment Promotion Board and, in certain cases, without prior permission of the RBI. Over a period of time, the government of India has relaxed the restrictions on foreign investment, including the revision of the investment cap to 26% in the insurance sector and 74% subject to RBI guidelines for setting up branches/subsidiaries of foreign banks in the private banking sector.

In May 1994, the government of India announced that purchases by foreign investors of ADSs, as evidenced by ADRs, and foreign currency convertible bonds of Indian companies would be treated as foreign direct investment in the equity issued by Indian companies for such offerings. Therefore, offerings that involve the issuance of equity that results in Foreign Direct Investors holding more than the stipulated percentage of direct foreign investments (which depends on the category of industry) would require approval from the Foreign Investment Promotion Board.

In addition, offerings by Indian companies of any such securities to foreign investors require Foreign Investment Promotion Board approval, whether or not the stipulated percentage limit would be reached if the proceeds will be used for investment in specified industries.

For investments in the pharmaceutical sector, the Foreign Direct Investment limit is 100%. Thus, foreign ownership of up to 100% of our equity shares would be allowed without prior permission of the Foreign Investment Promotion Board and, in certain cases, without prior permission of the RBI.

Portfolio Investment Scheme

Investments by persons of Indian nationality or origin residing outside of India (also known as Non-Resident Indians or NRIs) or registered Foreign Institutional Investors (FIIs) made through a stock exchange are known as portfolio investments (Portfolio Investments).

Portfolio Investments by NRIs

A variety of methods for investing in shares of Indian companies are available to NRIs. These methods allow Non-Resident Indians to make portfolio investments in existing shares and other securities of Indian companies on a basis not generally available to other foreign investors.

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The RBI no longer recognizes overseas corporate bodies (OCBs) as an eligible class of investment vehicle under various circumstances under the RBI s foreign exchange regulations.

Portfolio Investments by FIIs

In September 1992, the government of India issued guidelines that enable FIIs, including institutions such as pension funds, investment trusts, asset management companies, nominee companies and incorporated/institutional portfolio managers, to invest in all of the securities traded on the primary and secondary markets in India. Under the guidelines, FIIs are required to obtain an initial registration from the Securities and Exchange Board of India (SEBI), and a general permission from the RBI to engage in transactions regulated under the Foreign Exchange Management Act. FIIs must also comply with the provisions of the SEBI (Foreign Institutional Investors Regulations) 1995. When it receives the initial registration, the FII also obtains general permission from the RBI to engage in transactions regulated under the Foreign Exchange Management Act. Together, the initial registration and the RBI s general permission enable the registered FII to: (i) buy (subject to the ownership restrictions discussed below) and sell unrestricted securities issued by Indian companies; (ii) realize capital gains on investments made through the initial amount invested in India; (iii) participate in rights offerings for shares; (iv) appoint a domestic custodian for custody of investments held; and (v) repatriate the capital, capital gains, dividends, interest income and any other compensation received pursuant to rights offerings of shares. The current policy with respect to purchase or sale of securities of an Indian company by an FII is in Schedule 2 and Regulation 5(2) of the Foreign Exchange Management (Transfer or Issue of Securities by a Person Resident Outside India) Regulations, 2000.

Ownership restrictions

The SEBI and the RBI regulations restrict portfolio investments in Indian companies by foreign institutional investors, Non-Resident Indians and overseas corporate bodies, all of which we refer to as foreign portfolio investors. Under current Indian law, foreign institutional investors in the aggregate may hold not more than 24.0% of the equity shares of an Indian company, and Non-Resident Indians in the aggregate may hold not more than 10.0% of the shares of an Indian company through portfolio investments. The 24.0% limit referred to above can be increased to sectoral cap/statutory limits as applicable if a resolution is passed by the board of directors of the company followed by a special resolution passed by the shareholders of the company to that effect. The 10.0% limit referred to above may be increased to 24.0% if the shareholders of the company pass a special resolution to that effect. No single foreign institutional investor may hold more than 10.0% of the shares of an Indian company and no single Non-resident Indian may hold more than 5.0% of the shares of an Indian company.

In our case, our shareholders have passed a resolution enhancing the limits of portfolio investment by foreign institutional investors in the aggregate to 49%. Non-Resident Indians in the aggregate may hold not more than 10.0% of our equity shares through portfolio investments. Holders of ADSs are not subject to the rules governing FIIs unless they convert their ADSs into equity shares. As of March 31, 2007, FII s are holding 27.49% and NRI s 2.03% of our equity shares.

Under the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 (the Takeover Code), upon the acquisition of more than 5%, 10%, 14%, 54% or 74% of the outstanding shares or voting rights of a publicly-listed Indian company, the acquirer is required to disclose the aggregate of his shareholding or voting rights in that target company to such company. The target company and the acquirer are required to notify all of the stock exchanges on which the shares of such company are listed. For these purposes, an acquirer means any person or entity who, directly or indirectly, either alone or acting in concert with any other person or entity, acquires or agrees to acquire shares or voting rights in, or control over, a target company.

A person or entity who holds more than 15% of the shares or voting rights in any company is required to make an annual disclosure of his, her or its holdings to that company, which in turn is required to disclose the same to each of the stock exchanges on which the company s shares are listed. A holder of our ADSs would be subject to these notification requirements.

Upon the acquisition of 15% or more of such shares or voting rights, or upon acquiring control of the company, the acquirer is required to make a public announcement offering to purchase from the other shareholders at least a further 20% of all the outstanding shares of the company at a minimum offer price determined pursuant to the Takeover Code. If an acquirer holding more than 15% but less than 55% of shares acquires 5% or more shares during a fiscal

year, the acquirer is required to make a public announcement offering to purchase from the other shareholders at least 20% of all the outstanding shares of the company at a minimum offer price determined pursuant to the Takeover Code. Any further acquisition of outstanding shares or voting rights of a publicly listed company by an acquirer who holds more than 55% but less than 75% of shares or voting rights (or where the company concerned has obtained the initial listing of shares by making an offer of at least 10% of the issue size to the public pursuant to Rule 19(2)(b) of the Securities Contracts (Regulations) Rules 1957, less than 90% of the shares or voting right of the company)also requires the making of an open offer to acquire such number of shares as would not result in the public shareholding being reduced to below the minimum specified in the listing agreement. Where the public shareholding in the target company may be reduced to a level below the limit specified in the

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listing agreement the acquirer may acquire such shares or voting rights only in accordance with guidelines or regulations regarding delisting of securities specified by SEBI.

Since we are a listed company in India, the provisions of the Takeover Code will apply to us and to any person acquiring our equity shares or voting rights in our company. However, the Takeover Code provides for a specific exemption to holders of ADSs from the requirements of making a public announcement for a tender offer. This exemption will apply to a holder of ADSs so long as he or she does not convert the ADSs into the underlying equity shares.

We have entered into listing agreements with each of the Indian stock exchanges on which our equity shares are listed. Each of the listing agreements provides that if a person or entity acquires or agrees to acquire 5% or more of the voting rights of our equity shares, the purchaser shall report its holding to us and we must, in accordance with the provisions of the Takeover Code, report its holding to the relevant stock exchanges.

Although the provisions of the listing agreements entered into between us and the Indian stock exchanges on which our equity shares are listed will not apply to equity shares represented by ADSs, holders of ADSs may be required to comply with such notification and disclosure obligations pursuant to the provisions of the Deposit Agreement to be entered into by such holders, our company and a depositary.

Subsequent transfer of shares

A person resident outside India holding the shares or debentures of an Indian company may transfer the shares or debentures so held by him, in compliance with the conditions specified in the relevant Schedule of Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000 as follows:

(i) A person resident outside India, not being a Non-Resident Indian (NRI) or an overseas corporate body (OCB), may transfer by way of sale or gift the shares or convertible debentures held by him or it to any person resident outside India;

(ii) A Non-Resident Indian may transfer by way of sale or gift, the shares or convertible debentures held by him or it to another Non-Resident Indian only;

provided that the person to whom the shares are being transferred pursuant to clauses (i) or (ii) has obtained prior permission of the government of India to acquire the shares if he has a previous venture or tie up in India through an investment in shares or debentures or a technical collaboration or a trade mark agreement or investment by whatever name called in the same field or allied field in which the Indian company whose shares are being transferred is engaged.

Provided further that the restriction in clauses (i) and (ii) shall not apply to the transfer of shares to international financial institutions such as Asian Development Bank (ADB), International Finance Corporation (IFC), Commonwealth Development Corporation (CDC), Deutsche Entwicklungs Gesselschaft (DEG) and transfer of shares of an Indian company engaged in the Information Technology sector.

(iii) A person resident outside India holding the shares or convertible debentures of an Indian company in accordance with the said Regulations, (a) may transfer the same to a person resident in India by way of gift; or (b) may sell the same on a recognized Stock Exchange in India through a registered broker.

Restrictions for subsequent transfers of shares of Indian companies between residents and non-residents (other than OCBs) were relaxed significantly as of October 2004. As a result, for a transfer between a resident and a non-resident of securities of an Indian company, no prior approval of either the RBI or the government of India is required, as long as certain conditions are met.

ADS guidelines

Shares of Indian companies represented by ADSs may be approved for issuance to foreign investors by the government of India under the Issue of Foreign Currency Convertible Bonds and Ordinary Shares (Through Depositary Receipt Mechanism) Scheme, 1993 (the 1993 Scheme), as modified from time to time, promulgated by the government of India. The 1993 Scheme is in addition but without prejudice to the other policies or facilities, as described below, relating to investments in Indian companies by foreign investors. The issuance of ADSs pursuant to the 1993 Scheme also affords to holders of the ADSs the benefits of Section 115AC of the Income Tax Act, 1961 for

purpose of the application of Indian tax laws. In March 2001, the RBI issued a notification permitting, subject to certain conditions, two-way fungibility of ADSs. This notification provides that ADSs converted into Indian shares can be converted back into ADSs, subject to compliance with certain requirements and the limits of sectoral caps.

Fungibility of ADSs

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A registered broker in India can purchase shares of an Indian company that has issued ADSs, on behalf of a person resident outside India, for the purposes of converting the shares into ADSs. However, such conversion of equity shares into ADSs is possible only if the following conditions are satisfied:

(i) the shares are purchased on a recognized stock exchange;

(ii) the shares are purchased with the permission of the Custodian to the ADS offering of the Indian company and are deposited with the Custodian;

(iii) The custodian has been authorized to accept shares from non-resident investors for reissuance of ADSs;

(iv) the shares purchased for conversion into ADSs do not exceed the number of shares that were released by the Custodian pursuant to conversions of ADSs into equity shares under the Depositary Agreement; and

(v) a non-resident investor, broker, the Custodian and the Depositary comply with the provisions of the Scheme for Issue of Foreign Currency Convertible Bonds and Ordinary Shares (through Depositary Receipt Mechanism) Scheme, 1993 and the related guidelines issued by the Central Government from time to time.

Transfer of ADSs

A person resident outside India may transfer ADSs held in Indian companies to another person resident outside India without any permission. A person resident in India is not permitted to hold ADSs of an Indian company, except in connection with the exercise of stock options.

Shareholders resident outside India who intend to sell or otherwise transfer equity shares within India should seek the advice of Indian counsel to understand the requirements applicable at that time.

The RBI placed various restrictions on the eligibility of OCBs to make investments in Indian companies in AP (DIR) Series Circular No. 14 dated September 16, 2003. For further information on these restrictions, the circular is available on www.rbi.org.in for review.

10.E. ***Taxation***

Indian Taxation

General. The following summary is based on the law and practice of the Income-tax Act, 1961 (the Income-tax Act), including the special tax regime contained in Sections 115AC and 115ACA of the Income-tax Act read with the Issue of Foreign Currency Convertible Bonds and Ordinary Shares (through Depository Receipt Mechanism) Scheme, 1993 (the Scheme), as amended on January 19, 2000. The Income-tax Act is amended every year by the Finance Act of the relevant year. Some or all of the tax consequences of Sections 115AC and 115ACA may be amended or changed by future amendments to the Income-tax Act.

We believe this information is materially complete as of the date hereof. However, this summary is not intended to constitute an authoritative analysis of the individual tax consequences to non-resident holders or employees under Indian law for the acquisition, ownership and sale of ADSs and equity shares. *Each prospective investor should consult tax advisors with respect to taxation in India or their respective locations on acquisition, ownership or disposing of equity shares or ADSs.*

Residence. For purposes of the Income-tax Act, an individual is considered to be a resident of India during any fiscal year if he or she is in India in that year for:

a period or periods of at least 182 days; or

at least 60 days and, within the four preceding fiscal years has been in India for a period or periods amounting to at least 365 days.

The period of 60 days referred to above shall be read as 182 days in case of a citizen of India or a Person of Indian Origin living outside India who is visiting India.

A company is a resident of India under the Income-tax Act if it is formed or registered in India or the control and the management of its affairs is situated wholly in India. Individuals and companies that are not residents of India would be treated as non-residents for purposes of the Income-tax Act.

Taxation of Distributions.

a) As per Section 10(34) of the Income-tax Act, dividends paid by Indian Companies on or after April 1, 2003 to their shareholders (whether resident in India or not) are not subject to tax in the hands of the shareholders. However, the Indian

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company paying the dividend is subject to a dividend distribution tax at the rate of 16.99%, including applicable surcharges and the special levy called the Education and Higher Education Cess (hereinafter referred to as the education cess), on the total amount it distributes, declares or pays as a dividend.

b) Any distributions of additional ADSs or equity shares by way of bonus shares (i.e., stock dividends) to resident or non-resident holders will not be subject to Indian tax.

Taxation of Capital Gains. The following is a brief summary of capital gains taxation of non-resident holders and resident employees relating to the sale of ADSs and equity shares received upon redemption of ADSs. The relevant provisions are contained mainly in sections 10(36), 10(38), 45, 47(viia), 111A, 115AC and 115ACA, of the Income-tax Act, in conjunction with the Scheme. *You should consult your own tax advisor concerning the tax consequences of your particular situation.*

A non-resident investor transferring our ADS or equity shares, whether transferred in India or outside India to a non-resident investor, will not be liable for income taxes arising from capital gains on such ADS or equity shares under the provisions of the Income-tax Act in certain circumstances. Equity shares (including equity shares issuable on the conversion of the ADSs) held by the non-resident investor for a period of more than 12 months are treated as long-term capital assets. If the equity shares are held for a period of less than 12 months from the date of conversion of the ADSs, the capital gains arising on the sale thereof is to be treated as short-term capital gains.

Capital gains are taxed as follows:

gains from a sale of ADSs outside India by a non-resident to another non-resident are not taxable in India;

long-term capital gains realized by a resident from the transfer of the ADSs will be subject to tax at the rate of 10%, plus the applicable surcharge and education cess; short-term capital gains on such a transfer will be taxed at graduated rates with a maximum of 30%, plus the applicable surcharge and education cess.

long-term capital gains realized by a non-resident upon the sale of equity shares obtained from the conversion of ADSs are subject to tax at a rate of 10%, plus the applicable surcharge and education cess; and short-term capital gains on such transfer will be taxed at the maximum marginal rate of tax applicable to the seller, plus the applicable surcharge and education cess, if the sale of such equity shares is settled outside of a recognized stock exchange in India;

long-term capital gain realized by a non-resident upon the sale of equity shares obtained from the conversion of ADSs is exempt from tax and any short term capital gain is taxed at 10%, plus the applicable surcharge and education cess, if the sale of such equity shares is settled on a recognized stock exchange and securities transaction tax (STT) is paid on such sale. The rate of surcharge in the case of individuals whose taxable income is greater than Rs.1,000,000 is 10%; and

short-term capital gains realized upon the sale of equity shares obtained from the redemption of ADSs will be taxed at variable rates with a maximum of (i) 40%, , in case of foreign companies and (ii) 10%, in the case of resident employees or non-resident individuals. An additional surcharge will be charged if the aggregate taxable income exceeds prescribed limit during the relevant year, which is 10% if the aggregate taxable income exceeds Rs.1,000,000 in case of individuals and is 2.5% if the aggregate taxable income exceeds Rs.10,000,000 in case of foreign companies. An education cess of 3% will be charged on tax and surcharge.

As per Section 10(38) of the Income-tax Act, long term capital gains arising from the transfer of equity shares on or after October 1, 2004 in a company completed through a recognized stock exchange in India and on which sale the STT has been paid are exempt from Indian tax.

As per Section 111A of the Income-tax Act, short term capital gains arising from the transfer of equity shares on or after October 1, 2004 in a company completed through a recognized stock exchange in India are subject to tax at a rate of 10.3% including education cess but excluding the applicable surcharge

Purchase or sale of equity shares of a company listed on a recognized stock exchange in India is subject to a security transaction tax of 0.1% (0.125% from June 1, 2006)of the transaction value for any delivery based transaction

and 0.02%(0.025% from June 1, 2006) for any non-delivery based transaction.

The applicable provisions of the Income Tax Act, 1961 in the case of non-residents, may offset the above taxes, except the STT. The capital gains tax is computed by applying the appropriate tax rates to the difference between the sale price and the purchase price of the equity shares or ADSs. Under the Scheme, the purchase price of equity shares in an Indian listed company received in exchange

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for ADSs will be the market price of the underlying shares on the date that the Depositary gives notice to the custodian of the delivery of the equity shares in exchange for the corresponding ADSs, or the stepped up basis purchase price. The market price will be the price of the equity shares prevailing on the Stock Exchange, Mumbai or the National Stock Exchange. There is no corresponding provision under the Income-tax Act in relation to the stepped up basis for the purchase price of equity shares. However, the tax department in India has not denied this benefit. In the event that the tax department denies this benefit, the original purchase price of ADSs would be considered the purchase price for computing the capital gains tax.

According to the Scheme, a non-resident holder s holding period for the purposes of determining the applicable Indian capital gains tax rate relating to equity shares received in exchange for ADSs commences on the date of the notice of the redemption by the Depositary to the custodian. However, the Scheme does not address this issue in the case of resident employees, and it is therefore unclear as to when the holding period for the purposes of determining capital gains tax commences for such a resident employee.

The Scheme provides that if the equity shares are sold on a recognized stock exchange in India against payment in Indian rupees, they will no longer be eligible for the preferential tax treatment.

It is unclear as to whether section 115AC and the Scheme are applicable to a non-resident who acquires equity shares outside India from a non-resident holder of equity shares after receipt of the equity shares upon redemption of the ADSs.

It is unclear as to whether capital gains derived from the sale of subscription rights or other rights by a non-resident holder not entitled to an exemption under a tax treaty will be subject to Indian capital gains tax. If such subscription rights or other rights are deemed by the Indian tax authorities to be situated within India, the gains realized on the sale of such subscription rights or other rights will be subject to Indian taxation. The capital gains realized on the sale of such subscription rights or other rights, which will generally be in the nature of short-term capital gains, will be subject to tax
(i) at variable rates with a maximum rate of 42.23%, including the prevailing surcharge and education cess, in the case of a foreign company and (ii) in the range of 30.9% to 33.99%, including the applicable surcharge, in the case of resident employees and of non-resident individuals with taxable income over Rs.250,000.

Withholding Tax on Capital Gains. Any gain realized by a non-resident or resident employee on the sale of equity shares is subject to Indian capital gains tax, which, in the case of a non-resident is to be withheld at the source by the buyer. However, as per the provisions of Section 196D(2) of the Income-tax Act, no withholding tax is required to be deducted from any income by way of capital gains arising to FIIs (as defined in Section 115AD of the Act) on the transfer of securities (as defined in Section 115AD of the Act).

Buy-back of Securities. Indian companies are not subject to any tax on the buy-back of their shares. However, the shareholders are taxed on any resulting gains. We are required to deduct tax at source according to the capital gains tax liability of a non-resident shareholder.

Stamp Duty and Transfer Tax. Upon issuance of the equity shares underlying our ADSs, we are required to pay a stamp duty of 0.1% per share of the issue price of the underlying equity shares. A transfer of ADSs is not subject to Indian stamp duty. A sale of equity shares in physical form by a non-resident holder is also subject to Indian stamp duty at the rate of 0.25% of the market value of the equity shares on the trade date, although customarily such tax is borne by the transferee. Shares must be traded in dematerialized form. The transfer of shares in dematerialized form is currently not subject to stamp duty.

Wealth Tax. The holding of the ADSs and the holding of underlying equity shares by resident and non-resident holders will be exempt from Indian wealth tax. Non-resident holders are advised to consult their own tax advisors regarding the taxation of ADS in their country of residence.

Gift Tax and Estate Duty. Currently, there are no gift taxes or estate duties. These taxes and duties could be restored in future. Non-resident holders are advised to consult their own tax advisors regarding this issue.

Service Tax. Brokerage or commission paid to stockbrokers in connection with the sale or purchase of shares is subject to a service tax of 12.36%. The stockbroker is responsible for collecting the service tax from the shareholder and paying it to the relevant authority.

United States Federal Taxation

The following is a summary of the material U.S. federal income and estate tax consequences that may be relevant with respect to the acquisition, ownership and disposition of equity shares or ADSs and is for general information only. This summary

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addresses the U.S. federal income and estate tax considerations of holders that are U.S. holders. U.S. holders are beneficial holders of equity shares or ADSs who are (i) citizens or residents of the United States, (ii) corporations (or other entities treated as corporations for U.S. federal tax purposes) created in or under the laws of the United States or any state thereof or the District of Columbia, (iii) estates, the income of which is subject to U.S. federal income taxation regardless of its source, and (iv) trusts for which a U.S. court exercises primary supervision and a U.S. person has the authority to control all substantial decisions. This summary is limited to U.S. holders who will hold equity shares or ADSs as capital assets. In addition, this summary is limited to U.S. holders who are not resident in India for purposes of the Convention Between the Government of the United States of America and the Government of the Republic of India for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion With Respect to Taxes on Income. If a partnership holds the equity shares or ADSs, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. A partner in a partnership holding equity shares or ADSs should consult his own tax advisor.

This summary does not address tax considerations applicable to holders that may be subject to special tax rules, such as banks, insurance companies, financial institutions, dealers in securities or currencies, tax-exempt entities, persons that will hold equity shares or ADSs as a position in a straddle or as part of a hedging or conversion transaction for tax purposes, persons that have a functional currency other than the U.S. dollar or holders of 10% or more, by voting power or value, of the shares of our company. This summary is based on the tax laws of the United States as in effect on the date of this Annual Report and on United States Treasury Regulations in effect or, in some cases, proposed, as of the date of this Annual Report, as well as judicial and administrative interpretations thereof available on or before such date, and is based in part on the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms. All of the foregoing are subject to change, which change could apply retroactively and could affect the tax consequences described below.

Each prospective investor should consult his, her or its own tax advisor with respect to the U.S. Federal, state, local and non-U.S. tax consequences of acquiring, owning or disposing of equity shares or ADSs.

Ownership of ADSs. For U.S. federal income tax purposes, holders of ADSs will be treated as the holders of equity shares represented by such ADSs.

Dividends. Except for ADSs or equity shares, if any, distributed pro rata to all shareholders of our company, including holders of ADSs, the gross amount of any distributions of cash or property with respect to ADSs or equity shares (before reduction for any Indian withholding taxes) will generally be included in income by a U.S. holder as foreign source dividend income at the time of receipt, which in the case of a U.S. holder of ADSs generally should be the date of receipt by the Depositary, to the extent such distributions are made from our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Such dividends will not be eligible for the dividends received deduction generally allowed to corporate U.S. holders. To the extent, if any, that the amount of any distribution by us exceeds our current and accumulated earnings and profits (as determined under U.S. federal income tax principles) such excess will be treated first as a tax-free return of the U.S. holder s tax basis in the equity shares or ADSs and thereafter as capital gain.

Subject to certain limitations, dividends paid to non-corporate U.S. holders, including individuals, may be eligible for a reduced rate of taxation if we are deemed to be a qualified foreign corporation for United States federal income tax purposes and certain holding period requirements are met. A qualified foreign corporation includes a foreign corporation if (1) its shares (or, according to legislative history, its ADSs) are readily tradable on an established securities market in the United States or (2) it is eligible for the benefits under a comprehensive income tax treaty with the United States. In addition, a corporation is not a qualified foreign corporation if it is a passive foreign investment company (as discussed below) for either its taxable year in which the dividend is paid or the preceding taxable year. The ADSs are traded on the New York Stock Exchange. Due to the absence of specific statutory provisions addressing ADSs, however, there can be no assurance that we are a qualified foreign corporation solely as a result of our listing on the New York Stock Exchange. Nonetheless, we may be eligible for benefits under the comprehensive income tax treaty between India and the United States. Absent congressional action to extend these rules, the reduced rate of taxation will not apply to dividends received in taxable years beginning after December 31, 2010. Each U.S. holder should consult its own tax advisor regarding the treatment of dividends and such holder s eligibility for a reduced rate

of taxation.

Subject to certain conditions and limitations, any Indian withholding tax imposed upon to a U.S. holder with respect to distributions on ADSs or equity shares should be eligible for credit against the U.S. holder s federal income tax liability. Alternatively, a U.S. holder may claim a deduction for such amount, but only for a year in which a U.S. holder does not claim a credit with respect to any foreign income taxes. The overall limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, distributions on ADSs or equity shares will be income from sources outside the United States, and, for tax years beginning before January 1, 2007, will generally be passive income or financial services income, and for tax years beginning after December 31, 2006, will generally be passive category income or general category income for purposes of computing the United States foreign tax credit allowable to a U.S. holder.

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If dividends are paid in Indian rupees, the amount of the dividend distribution included in the income of a U.S. holder will be in the U.S. dollar value of the payments made in Indian rupees, determined at a spot exchange rate between Indian rupees and U.S. dollars applicable to the date such dividend is included in the income of the U.S. holder, regardless of whether the payment is in fact converted into U.S. dollars. Generally, gain or loss, if any, resulting from currency exchange fluctuations during the period from the date the dividend is paid to the date such payment is converted into U.S. dollars will be treated as U.S. source ordinary income or loss.

Sale or exchange of equity shares or ADSs. A U.S. holder generally will recognize gain or loss on the sale or exchange of equity shares or ADSs equal to the difference between the amount realized on such sale or exchange and the U.S. holder s tax basis in the equity shares or ADSs, as the case may be. Such gain or loss will be capital gain or loss, and will be long-term capital gain or loss if the equity shares or ADSs, as the case may be, were held for more than one year. Gain or loss, if any, recognized by a U.S. holder generally will be treated as U.S. source passive category income or loss for U.S. foreign tax credit purposes. Capital gains realized by a U.S. holder upon the sale of equity shares (but not ADSs) may be subject to certain tax in India. See Taxation Indian Taxation Taxation of Capital Gains. Due to limitations on foreign tax credits, however, a U.S. holder may not be able to utilize any such taxes as a credit against the U.S. holder s federal income tax liability.

Estate taxes. An individual shareholder who is a citizen or resident of the United States for U.S. federal estate tax purposes will have the value of the equity shares or ADSs held by such holder included in his or her gross estate for U.S. federal estate tax purposes. An individual holder who actually pays Indian estate tax with respect to the equity shares will, however, be entitled to credit the amount of such tax against his or her U.S. federal estate tax liability, subject to a number of conditions and limitations.

Backup withholding tax and information reporting requirements. Any dividends paid, or proceeds on a sale of, equity shares or ADSs to or by a U.S. holder may be subject to U.S. information reporting, and a backup withholding tax (currently at a rate of 28%) may apply unless the holder establishes that he, she or it is an exempt recipient or provides a U.S. taxpayer identification number, certifies that such holder is not subject to backup withholding and otherwise complies with any applicable backup withholding requirements. Any amount withheld under the backup withholding rules will be allowed as a refund or credit against the holder s U.S. federal income tax, provided that the required information is furnished to the Internal Revenue Service.

Passive foreign investment company. A non-U.S. corporation will be classified as a passive foreign investment company for U.S. Federal income tax purposes if either:

- 75% or more of its gross income for the taxable year is passive income; or
- on average for the taxable year by value, or, if it is not a publicly traded corporation and so elects, by adjusted basis, if 50% or more of its assets produce or are held for the production of passive income.

We do not believe that we will be treated as a passive foreign investment company for the current taxable year. Since this determination is made on an annual basis, however, no assurance can be given that we will not be considered a passive foreign investment company in future taxable years. If we were to be a passive foreign investment company for any taxable year, U.S. holders would be required to either:

- pay an interest charge together with tax calculated at ordinary income rates (which may be higher than the ordinary income rates that otherwise apply to U.S. holders) on excess distributions, as the term is defined in relevant provisions of the U.S. tax laws, and on any gain on a sale or other disposition of ADSs or equity shares;
- if a qualified electing fund election (as the term is defined in relevant provisions of the U.S. tax laws) is made, include in their taxable income their pro rata share of undistributed amounts of our income; or
- if the equity shares are marketable stock and a mark-to-market election is made, mark-to-market the equity shares each taxable year and recognize ordinary gain and, to the extent of prior ordinary gain, ordinary loss for the increase or decrease in market value for such taxable year.

If we are treated as a passive foreign investment company, we do not plan to provide information necessary for the qualified electing fund election.

The above summary is not intended to constitute a complete analysis of all tax consequences relating to the ownership of equity shares or ADSs. You should consult your own tax advisor concerning the tax consequences to you based on your particular situation.

10.F. ***Dividends***

Not applicable.

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10.G. ***Statements by experts***

Not applicable.

10.H. ***Documents on display***

This report and other information filed or to be filed by us can be inspected and copied at the public reference facilities maintained by the SEC at Room 1200, 450 Fifth Street, Washington, DC, U.S.A. These reports and other information may also be accessed via the SEC s website at www.sec.gov.

Additionally, documents referred to in this Form 20-F may be inspected at our corporate office, which is located at 7-1-27, Ameerpet, Hyderabad, 500016, India.

10.I. ***Subsidiary information***

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

Market risk is the risk of loss of future earnings or to fair values or to future cash flows that may result from a change in the price of a financial instrument. The value of a financial instrument may change as a result of changes in the interest rates, foreign currency exchange rates and other market changes that affect market risk sensitive instruments. Market risk is attributable to all market risk sensitive financial instruments including foreign currency receivables and payables.

Our exposure to market risk is a function of our investment and borrowing activities and our revenue generating and operating activities in foreign currency. The objective of market risk management is to avoid excessive exposure in our foreign currency revenues and costs.

We are exposed to market risk primarily related to foreign exchange rate risk, interest rate risk and the market value of our investments. We actively monitor these exposures. To manage the volatility relating to these exposures, we enter into a variety of derivative financial instruments to reduce, where it is deemed appropriate to do so, fluctuations in earnings and cash flows associated with changes in interest rates and foreign currency rates and to enhance the yield on the investment. We only sell existing assets in transactions and future transactions (in the case of anticipatory hedges), which we reasonably expect we will have in the future based on past experience. Our portfolio is only for hedging purpose.

Foreign Exchange Rate Risk

We use the Indian rupee as our reporting currency and we are therefore exposed to foreign exchange movements, primarily in U.S. dollars, Euros, Pounds sterling, Russian rubles, Brazilian real and Asian currencies. Consequently, we enter into various contracts, which change in value as foreign exchange rates change, to preserve the value of assets, commitments, liabilities and anticipated transactions. We use futures contracts and foreign currency option contracts to hedge firm and anticipated net revenues in foreign currencies.

A significant portion of our revenues are in U.S. dollars while a significant portion of our costs are in Indian rupees. The exchange rate between Indian rupees and U.S. dollars has fluctuated significantly in recent years and may continue to fluctuate in the future. Appreciation of Indian rupees against U.S. dollars can adversely affect our results of operations.

We purchase forward foreign exchange contracts and options to mitigate the risk of changes in foreign exchange rates on accounts receivable and deposits. The futures contracts typically mature between one and twelve months. The Indian market for U.S. dollar futures contract is well traded up to 12 months. The counter parties for our exchange contracts are banks and counter party risk is minimal. Although we believe that these contracts are effective as hedges from an economic perspective, they do not qualify for hedge accounting under SFAS No. 133, as amended. Any derivative that is either not designated as a hedge, or is so designated but is ineffective pursuant to SFAS No. 133, is marked to market with resultant differences being recognized in the consolidated income statement.

The following table sets forth sell U.S. dollars/Indian rupees foreign currency futures contracts held by us as of March 31, 2007 by maturity month of the contracts:

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Description	Apr-07	May-07	June-07	July-07	Aug-07	Total
Contracts outstanding (U.S.$ million)	80.50	22	270	5	20	397.50
Average contractual exchange rate (U.S. $/Rs.)	44.86	45.04	44.11	46.88	47.06	

The following table sets forth sell Euro/U.S. dollars foreign currency futures contracts held by us as of March 31, 2007 by maturity month of the contracts:

Description	Apr-07
Contracts Outstanding (million)	11
Average Contractual Exchange Rate (/U.S.$)	1.3325

The following table sets forth sell Euro/U.S. dollars foreign currency option contracts held by us as of March 31, 2007 by maturity month of the contracts:

Description	Apr-07
Contracts Outstanding (million)	30
Average Contractual Exchange Rate (/U.S.$)	1.3375

As of March 31, 2007, the spot exchange rate was Rs.43.10 per U.S. dollar. For each of the U.S. dollars/Indian rupees and Euro/ U.S. dollars options, the strike price depends on the spot exchange rate on the date of expiration of the option.

Increase/(decrease) in fair value of futures contracts and options has been recorded in the consolidated income statement in the foreign exchange (gain)/loss line item.

Sensitivity analysis of exchange rate risk

A Rs.1 decrease/increase in the spot rate for exchange of Indian rupees with U.S. dollars would result in approximately Rs.397.50 million increase/decrease in the fair value of our short U.S. dollars/Indian rupees currency futures contracts outstanding as of March 31, 2007.

A U.S.$0.01 decrease/increase in the spot rate for exchange of U.S. dollars with Euro would result in approximately Rs.17.671 million increase/decrease in the fair value of our short Euro/U.S.$ currency futures contracts outstanding as of March 31, 2007.

Commodity Rate Risk

Our exposure to market risk with respect to commodity prices primarily arises from the fact that we are a purchaser and seller of active pharmaceutical ingredients and the components for such active pharmaceutical ingredients. These are commodity products whose prices can fluctuate sharply over short periods of time. The prices of our raw materials generally fluctuate in line with commodity cycles, though the prices of raw materials used in our active pharmaceutical ingredients business are generally more volatile. Raw material expense forms the largest portion of our operating expenses. We evaluate and manage our commodity price risk exposure through our operating procedures and sourcing policies.

We do not use any derivative financial instruments or futures contracts to hedge our exposure to fluctuations in commodity prices.

Interest Rate Risk

As of March 31, 2007 we had a loan of 358million at an average interest rate of 6-month Euribor plus 70 to 200 basis points and U.S.$12.70 million at an interest rate of 6-month Libor plus 70 basis points. This exposes us to risk of changes in interest rates, particularly Euribor. Our investments in bank fixed deposits and short-term liquid mutual funds do not expose us to significant interest rate risk.

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	Amount of Long Term Loans as at March 31,		
	2007	2006	2005
Rupee Term Loans*	Rs.19.225 million	Rs.25.1 million	Rs.31.1 million
Foreign Currency Loans	358 million and U.S.$12.7 million	400 million	

* Loan received at a subsidized rate of interest from Indian Renewable Energy Development Agency Limited promoting use of alternative sources of energy.

Interest Rate Profile. An interest rate profile of long-term debt is given below:

	For the Fiscal Year Ended March 31,		
	2007	2006	2005
Foreign Currency Loans	6 months Euribor + 70 bps - 200 bps	1-month Euribor + 150 bps	
	6 month Libor + 70 bps		
Rupee Term Loans*	2%	2%	2%

* Loan received at a subsidized rate of interest from Indian Renewable Energy Development Agency Limited promoting use

of alternative sources of energy.

As of March 31, 2007, we have not entered into any derivative financial instruments to hedge our interest rate risk.

Maturity Profile.

A maturity profile of Long term loans outstanding is as follows:

Maturing in Year ending March 31,	Rupee Term Loans (Rs.in Thousands)	Foreign Currency Loans (Euro in Thousands)	Foreign Currency Loans (Dollars in Thousands)
2008	5,920	62,841	508
2009	5,920	38,852	1,524
2010	5,920	64,627	2,794
2011	1,465	76,926	3,302
Thereafter	0	114,754	4,572
	19,225	358,000	12,700

Our major market risks of foreign exchange, interest rate and counter party risk are managed centrally by our Group Treasury department, which evaluates and exercises independent control over the entire process of market risk management. The activities of this department include management of cash resources, implementing hedging strategies for foreign currency exposures, and borrowing strategies.

We have a written treasury policy, and we do regular reconciliations of our positions with our counter-parties. In addition, audits of the treasury function are performed at regular intervals.

Counter-Party Risk

Counter-party risk encompasses settlement risk on derivative and money market contracts and credit risk on cash and time deposits. Exposure to these risks is closely monitored and kept within predetermined parameters. Our group treasury department does not expect any losses from non-performance by these counter-parties and does not have any significant grouping of exposures to financial sector or country risk.

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Derivative financial instruments

The contract or underlying principal amount of derivative financial instruments (in millions) at March 31, 2007 and 2006 are set forth by currency in the table below:

	As at Fiscal Year Ended March 31,					
	2007			2006		
	U.S. $ million	EURO million	Rs. million	U.S. $ million	EUR million	Rs. million
Currency related instruments						
Forward foreign exchange rate contracts (sell)	397.5	11		105	36	
Forward foreign exchange rate contracts (buy)				79.5		
Over the counter currency options (sell)		30				
Currency related derivatives	397.5	41		184.5	36	
Interest rate related instruments						
Interest rate swaps						
Forward rate agreements						
Interest rate options						
Interest rate related derivatives						

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

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PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Modification in the rights of security holders

None.

Use of Proceeds

In November 2006, we completed a public offering of our American Depositary Shares (ADS) to investors. The offering consisted of 14,300,000 ADSs representing 14,300,000 equity shares having a par value of Rs.5 each, at an offering price of U.S.$16.00 per ADS. The proceeds of the offering (including sales pursuant to the underwriters over allotment option, but prior to the underwriting discount and commissions and expenses of the offering) were U.S.$228.8 million. We paid underwriting discounts and commission of approximately U.S.$4.0 million. Accordingly, the net proceeds from the offering after underwriting discounts and commissions was approximately U.S.$224.8 million. None of the net proceeds from the public offering were paid, directly or indirectly, to any of our directors, officers or general partners or any of their associates, or to any persons owing ten percent or more of any class of our equity securities, or any affiliates.

Out of the total net proceeds of U.S.$224.8 million that was raised, U.S.$23.9 million was utilized in fiscal 2007 as follows:

Particulars	Amount in U.S.$ million
Loan to Subsidiary	23.4
Loan to Affiliate	0.5
Total utilization during the year	**23.9**

The remaining proceeds of U.S.$200.9 million have been placed in deposit accounts outside of India.

ITEM 15. CONTROLS AND PROCEDURES

(a) *Disclosure Controls And Procedures*

As of the end of the period covered by this Annual Report on Form 20-F, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act).

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective, as of March 31, 2007, to provide reasonable assurance that the information required to be disclosed in filings and submissions under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified by the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions about required disclosure.

(b) *Management s Annual Report on Internal Control Over Financial Reporting*

Management of Dr.Reddy s Laboratories Limited (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. As defined by the SEC, internal control over financial reporting is a process designed under the supervision of the Company s principal executive and principal financial officers, and effected by the company s board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles.

The Company s internal control over financial reporting is supported by written policies and procedures, that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company s

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assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of the Company s management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management of the Company conducted an assessment of the effectiveness of the Company s internal control over financial reporting as of March 31, 2007 based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework).

Based on this assessment, management has concluded that the Company s internal control over financial reporting was effective as of March 31, 2007.

The effectiveness of the Company s internal control over financial reporting as of March 31, 2007 has been audited by KPMG, the independent registered public accounting firm that audited the Company s financial statements, as stated in their report, a copy of which is included in this annual report on Form 20-F.

/s/ G. V. Prasad	/s/ Saumen Chakraborty
Vice-Chairman and Chief Executive Officer	Chief Financial Officer

(c) *Attestation Report of the Registered Public Accounting Firm.*

The following is the attestation report we received from KPMG on management s assessment of our internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Dr. Reddy s Laboratories Limited:

We have audited Dr. Reddy s Laboratories Limited s (the Company s) internal control over financial reporting as of March 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of March 31, 2007 and 2006, and the related consolidated statements of operations, stockholders equity and comprehensive income, and cash flows for each of the years in the three-year period ended March 31, 2007, and our report dated July 20, 2007 expressed an unqualified opinion on those consolidated financial statements.

KPMG
Hyderabad, India
July 20, 2007

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(d) *Changes in Internal Control over Financial Reporting*

During the period covered by this Annual Report, there were no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

ITEM 16. [RESERVED]

ITEM 16.A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Audit Committee is composed of independent directors and brings in expertise in the fields of finance, economics, human resource development, strategy and management. Please see Item 6. Directors, Senior Management and Employees for the experience and qualifications of the members of the Audit Committee. As of March 31, 2007, no member of our audit committee met the requirements to be an audit committee financial expert under the SEC definition. We believe that the combined knowledge, skills and experience of the Board of Directors and their authority to engage outside experts as they deem appropriate to provide them with advice on the matters related to their responsibilities, enable them, as a group, to act effectively in the fulfillment of their tasks and responsibilities required under the Sarbanes-Oxley Act of 2002.

ITEM 16.B. CODE OF ETHICS

We have adopted a code of business ethics applicable to our executive officers, directors and all other employees, including a separate code of ethics applicable to our senior financial officers. A copy of the code is available, without charge, to all of our employees upon request to our human resources department, to investors by contacting our investor relations department and to others if a written request is made to our Company Secretary at our corporate office situated at 7-1-27, Ameerpet, Hyderabad 500 016, Andhra Pradesh, India. The code is also available on our corporate website, www.drreddys.com. Any waivers of this code for executive officers or directors will be disclosed through filing of a Form 6-K. In addition, the audit committee of the Board of Directors has approved a whistleblower policy, which functions in coordination with our code of business ethics and provides an anonymous means for employees and others to communication with various internal organizations, including the audit committee of the Board of Directors.

ITEM 16.C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth for the fiscal years ended March 31, 2005 and March 31, 2006, the fees paid to our principal accountant and its associated entities for various services they provided us in these periods.

Type of Service	**Fiscal Year Ended**		**Description of Services**
	March 31, 2006	March 31, 2007	
	(Rs. in millions)		
Audit Fees	Rs. 30.71	Rs. 67.08	Audit of the financial statements and review of statutory filings
Tax Fees	0.60	0.33	
All Other Fees	0.05	0.91	Statutory certifications, other certifications and advisory services
Total	Rs. 31.36	Rs. 68.32	

Our audit committee charter requires us to take the prior approval of our audit committee on every occasion we engage our principal accountants or their associated entities to provide us any non-audit services. We disclose to our audit committee the nature of services that are provided and the fees to be paid for the services. The fees listed in the above table as Tax Fees and All Other Fees were approved by our audit committee.

ITEM 16.D. EXEMPTION FROM THE LISTING STANDARDS FOR AUDIT COMMITTEE

We have not sought any exemption from the listing standards for audit committees applicable to us as foreign private issuer.

ITEM 16.E. PURCHASE OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

During fiscal 2006, there was no purchase made by or on behalf of us or any affiliated purchaser of shares of any class of our securities that are registered by us pursuant to Section 12 of the Exchange Act.

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PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

The following financial statement and auditors report for fiscal 2007 are incorporated herein by reference and are included in this Item 18 of this report on Form 20-F:

Report of Independent Registered Public Accounting Firm.

Consolidated Balance Sheets as of March 31, 2006 and 2007.

Consolidated Statements of Operations for the years ended March 31, 2005, 2006 and 2007.

Consolidated Statements of Stockholders Equity and Comprehensive Income for the years ended March 31, 2005, 2006 and 2007.

Consolidated Statements of Cash flows for the years ended March 31, 2005, 2006 and 2007.

Notes to the Consolidated Financial Statements.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Dr. Reddy s Laboratories Limited:

We have audited the accompanying consolidated balance sheets of Dr. Reddy s Laboratories Limited and subsidiaries (the Company) as of March 31, 2007 and 2006, and the related consolidated statements of operations, stockholders equity and comprehensive income, and cash flows for each of the years in the three-year period ended March 31, 2007. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2007, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of March 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated July 20, 2007 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

KPMG
Hyderabad, India
July 20, 2007

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

	As of March 31,		
	2006	**2007**	**2007** Convenience translation into U.S.$ **(unaudited)**
ASSETS			
Current assets:			
Cash and cash equivalents	Rs. 3,712,637	Rs. 17,981,447	U.S.$ 417,203
Investment securities	14,703	15,325	356
Restricted cash	1,606,245	606,159	14,064
Accounts receivable, net of allowances	4,801,794	7,518,878	174,452
Inventories	6,894,712	7,545,580	175,071
Deferred income taxes and deferred charges	173,750	557,792	12,942
Due from related parties	246,360	145,086	3,366
Other current assets	2,639,818	3,096,129	71,836
Total current assets	20,090,019	37,466,396	869,290
Property, plant and equipment, net	9,086,331	12,427,798	288,348
Due from related parties	6,182	4,856	113
Investment securities	1,090,202	1,089,950	25,289
Investment in affiliates	132,659	225,905	5,241
Goodwill	16,634,509	15,540,688	360,573
Intangible assets, net	17,034,555	18,888,413	438,246
Restricted cash	4,468,840		
Other assets	224,772	275,097	6,383
Total assets	Rs. 68,768,069	Rs. 85,919,103	U.S.$ 1,993,483
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Borrowings from banks	Rs. 9,132,462	Rs. 3,212,676	U.S.$ 74,540
Current portion of long-term debt	925,761	3,670,266	85,157
Trade accounts payable	3,639,217	4,754,978	110,324
Due to related parties	151,678	871	20
Accrued expenses	3,083,120	3,958,539	91,845
Other current liabilities	1,812,623	2,936,103	68,123
Total current liabilities	18,744,861	18,533,433	430,010
Long-term debt, excluding current portion	20,937,132	17,870,983	414,640
Deferred revenue	56,466	86,302	2,002

Deferred income taxes	6,346,174	7,556,228		175,319
Other liabilities	411,703	283,456		6,577
Total liabilities	Rs. 46,496,336	Rs. 44,330,402	U.S.$	1,028,548
Minority interest		10,473		243
Stockholders equity:				
Equity shares at Rs.5 par value; 200,000,000 shares authorized; Issued and outstanding; 153,389,140 shares and 167,912,180 shares as of March 31, 2006 and 2007, respectively	Rs. 383,473	Rs. 839,561	U.S.$	19,479
Additional paid-in capital	10,261,783	19,908,837		461,922
Equity options outstanding	463,128	564,937		13,108
Retained earnings	11,201,794	20,091,135		466,152
Equity shares held by a controlled trust: 82,800 shares	(4,882)	(4,882)		(113)
Accumulated other comprehensive income	(33,563)	178,640		4,145
Total stockholders equity	22,271,733	41,578,228		964,692
Total liabilities and stockholders equity	Rs. 68,768,069	Rs. 85,919,103	U.S.$	1,993,483

See accompanying notes to the consolidated financial statements.

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

	Fiscal Year ended March 31,			
	2005	**2006**	**2007**	**2007** Convenience translation into U.S.$ **(unaudited)**
Revenues:				
Product sales, net of allowances for sales returns (includes excise duties of Rs.815,007, Rs.1,153,273, and Rs.779,390 for the years ended March 31, 2005, 2006 and 2007, respectively)	Rs. 19,126,188	Rs. 24,077,209	Rs. 64,185,378	U.S.$ 1,489,220
Service income	47,441	142,317	882,172	20,468
License fees	345,737	47,521	27,542	639
	19,519,366	24,267,047	65,095,092	1,510,327
Cost of revenues	9,385,820	12,417,413	34,219,539	793,957
Gross profit	10,133,546	11,849,634	30,875,553	716,370
Operating expenses:				
Selling, general and administrative expenses	6,774,563	8,028,884	14,051,137	326,012
Research and development expenses, net	2,803,311	2,152,950	2,462,660	57,138
Amortization expenses	349,991	419,867	1,570,894	36,448
Write-down of intangible assets			1,770,221	41,072
Foreign exchange (gain)/loss, net	488,819	126,342	(136,753)	(3,173)
Other operating (income)/expenses, net	5,969	(320,361)	(67,039)	(1,555)
Total operating expenses:	10,422,653	10,407,682	19,651,120	455,942
Operating income/(loss)	(289,107)	1,441,952	11,224,433	260,428
Equity in loss of affiliates, net	(58,101)	(88,235)	(62,676)	(1,454)
Other income/(expense), net	454,237	533,606	(661,482)	(15,348)
Income before income taxes and minority interest	107,029	1,887,323	10,500,275	243,626
Income taxes (expense)/benefit	94,277	(258,390)	(1,176,936)	(27,307)
Minority interest	9,942	(76)	3,499	81
Net income	Rs. 211,248	Rs. 1,628,857	Rs. 9,326,838	U.S.$ 216,400

Earnings per equity share				
Basic	1.38	10.64	58.82	1.36
Diluted	1.38	10.62	58.56	1.36
Weighted average number of equity shares used in computing earnings per equity share				
Basic	153,037,898	153,093,316	158,552,422	158,552,422
Diluted	153,119,602	153,403,846	159,256,476	159,256,476

See accompanying notes to the consolidated financial statements.

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME
Fiscal Year ended March 31, 2005, 2006 and 2007
(in thousands, except share data)

	Equity shares		Additional		Accumulated other	Equity shares held by a controlled trust	
	No. of shares	Amount	paid In capital	Comprehensive income	comprehensive income	No. of shares	Amount
Balance as of March 31, 2004	153,037,898	Rs. 382,595	Rs. 10,089,152		Rs. 86,073	82,800	(4,882)
Dividend paid							
Comprehensive income							
Net income				Rs. 211,248			
Translation adjustment				13,512	13,512		
Unrealized loss on investments, net of tax benefit Rs.5,206				(23,345)	(23,345)		
Comprehensive income				Rs. 201,415			
Stock based compensation							
Balance as of March 31, 2005	153,037,898	Rs. 382,595	Rs. 10,089,152		Rs. 76,240	82,800	Rs. (4,882)
Issuance of equity shares on exercise of options	351,242	878	172,631				
Dividend paid							
Comprehensive income							
Net income				Rs. 1,628,857			
Translation adjustment				11,041	11,041		
Unrealized loss on investments,				(120,844)	(120,844)		

net of tax benefit Rs.35,079								
Comprehensive income				Rs. 1,519,054				
Stock based compensation								
Balance as of March 31, 2006	153,389,140	Rs. 383,473	Rs. 10,261,783		Rs. (33,563)	82,800	Rs.	(4,882)
Stock Dividend		Rs. 383,789	(383,789)			82,800		
Issuance of equity shares on exercise of options	223,040	799	88,433					
Common stock issued	14,300,000	71,500	9,942,410					
Dividend paid								
Cumulative effect adjustment on adoption of SFAS 123R								
Comprehensive income								
Net income				Rs. 9,326,838				
Translation adjustment				251,353	251,353			
Unrealized loss on investments, net of tax benefit Rs.127				(114)	(114)			
Comprehensive income				Rs. 9,578,077				
Initial adoption of SFAS 158, net of tax benefit Rs.20,019					(39,036)			
Stock based compensation								
Balance as of March 31, 2007	167,912,180	Rs. 839,561	Rs. 19,908,837		Rs. 178,640	82,800	Rs.	(4,882)

Convenience translation into U.S.$ (unaudited)	U.S.$	19,479	U.S.$	461,922	U.S.$	4,145	U.S.$	(113)

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME
For the fiscal years ended March 31, 2005, 2006 and 2007
(in thousands, except share data)

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

	Equity - options outstanding	Retained earnings	Total stockholders equity
Balance as of March 31, 2004	Rs. 256,748	Rs. 10,229,672	Rs. 21,039,358
Dividend paid		(431,615)	(431,615)
Comprehensive income			
Net income		211,248	211,248
Translation adjustment			13,512
Unrealized loss on investments, net of tax benefit Rs.5,206			(23,345)
Comprehensive income			
Stock based compensation	144,001		144,001
Balance as of March 31, 2005	Rs. 400,749	Rs. 10,009,305	Rs. 20,953,159
Issuance of equity shares on exercise of options	(99,870)		73,639
Dividend paid		(436,368)	(436,368)
Comprehensive income			
Net income		1,628,857	1,628,857
Translation adjustment			11,041
Unrealized loss on investments, net of tax benefit Rs.35,079			(120,844)
Comprehensive income			
Stock based compensation	162,249		162,249
Balance as of March 31, 2006	Rs. 463,128	Rs. 11,201,794	Rs. 22,271,733
Stock Dividend			
Issuance of equity shares on exercise of options	(73,571)		15,661
Common stock issued			10,013,910
Dividend paid		(437,497)	(437,497)
Cumulative effect adjustment on adoption of SFAS 123R	(14,806)		(14,806)
Comprehensive income			
Net income		9,326,838	9,326,838
Translation adjustment			251,353
Unrealized loss on investments, net of tax benefit Rs.127			(114)
Comprehensive income			
Initial adoption of SFAS 158, net of tax benefit Rs.20,019			(39,036)

Stock based compensation	190,186		190,186
Balance as of March 31, 2007	Rs. 564,937	Rs. 20,091,135	Rs. 41,578,228
Convenience translation into U.S.$ (unaudited)	U.S.$ 13,108	U.S.$ 466,152	U.S.$ 964,692

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

	Fiscal Year ended March 31,			
	2005	**2006**	**2007**	**2007** Convenience translation into U.S.$ **(unaudited)**
Cash flows from operating activities:				
Net income	Rs. 211,248	Rs. 1,628,857	Rs. 9,326,838	U.S.$ 216,400
Adjustments to reconcile net income to net cash from operating activities:				
Deferred tax benefit	(95,580)	(55,157)	(1,103,598)	(25,606)
(Gain) / loss on sale of available for sale securities, net	(64,997)	3,924	(869)	(20)
Depreciation and amortization	1,309,290	1,567,090	3,010,192	69,842
Write-down of intangible assets			1,770,221	41,072
In-process research and development expense	277,343			
Gain on sale of property, plant and equipment, net	(1,810)	(320,361)	(67,039)	(1,555)
Provision for doubtful accounts receivable	79,442	33,629	151,620	3,518
Allowance for sales returns	105,245	239,462	1,325,981	30,765
Inventory write-downs	52,692	100,783	306,235	7,105
Equity in loss of affiliates, net	58,101	88,235	62,676	1,454
Unrealized foreign exchange (gain)/loss, net	105,227	67,650	(97,232)	(2,256)
Stock based compensation, net	144,001	162,249	175,380	4,069
Loss on sale of subsidiary interest	8,122			
Minority interest	(9,942)	76	(3,499)	(81)
Changes in operating assets and liabilities:				
Accounts receivable	77,368	(781,607)	(3,032,373)	(70,357)
Inventories	(514,187)	(1,851,724)	(995,342)	(23,094)
Other assets	142,486	(1,123,076)	(371,099)	(8,610)
Due to / from related parties, net	(40,249)	15,223	(48,206)	(1,118)
Trade accounts payable	(763,523)	1,511,074	889,677	20,642
Accrued expenses	1,094,768	243,625	825,207	19,146
Deferred revenue	(247,604)	(16,277)	27,373	635
Other liabilities	364,170	129,478	(347,623)	(8,065)
Net cash provided by operating activities	2,291,611	1,643,153	11,804,520	273,887

Cash flows from investing activities:				
Restricted cash	49,304	(6,017,219)	5,468,926	126,889
Expenditure on property, plant and equipment	(1,749,172)	(1,873,268)	(4,477,199)	(103,879)
Proceeds from sale of property, plant and equipment	44,673	691,273	84,061	1,950
Investment in affiliates	(49,935)	(100,800)	(158,324)	(3,673)
Purchase of investment securities	(10,226,471)	(5,074,184)	(331,000)	(7,680)
Proceeds from sale of investment securities	13,079,463	5,274,899	331,869	7,700
Expenditure on intangible assets	(8,299)	(41,517)	(259,198)	(6,014)
Cash paid towards contingent consideration		(114,244)	(66,677)	(1,547)
Proceeds from sale of subsidiary interest	29,000			
Cash paid for acquisition, net of cash acquired	(535,665)	(27,269,382)		
Net cash provided by / (used in) investing activities	632,898	(34,524,442)	592,458	13,746
Cash flows from financing activities:				
Proceeds from issuance of equity shares		73,639	10,029,571	232,705
Proceeds from minority interest shareholder			10,473	243
Proceeds from bank borrowings	2,520,409	6,322,206		
Repayment of bank borrowings			(5,912,284)	(137,176)
Proceeds from short term loan			2,212,983	51,345
Repayment of short term loan			(2,171,461)	(50,382)
Proceeds from long-term debt		21,598,301		
Repayment of long-term debt	(157,476)	(6,577)	(1,888,540)	(43,818)
Debt issuance costs		(340,243)	(89,565)	(2,078)
Dividends	(431,615)	(436,368)	(437,497)	(10,151)
Net cash provided by financing activities	1,931,318	27,210,958	1,753,680	40,689
Effect of exchange rate changes on cash and cash equivalents, net	55,802	95,104	118,152	2,741
Net increase / (decrease) in cash and cash equivalents during the year	4,911,629	(5,575,227)	14,268,810	331,063
Cash and cash equivalents at the beginning of the year	4,376,235	9,287,864	3,712,637	86,140
Cash and cash equivalents at the end of the year	Rs. 9,287,864	Rs. 3,712,637	Rs. 17,981,447	U.S.$ 417,203

See accompanying notes to the consolidated financial statements

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

	Fiscal year ended March 31,			
	2005	**2006**	**2007**	**2007** Convenience translation into U.S.$ **(unaudited)**
Supplemental disclosures:				
Cash paid for:				
Interest	Rs. 98,337	Rs. 225,284	Rs. 1,589,386	U.S.$ 36,877
Income taxes		223,000	1,350,083	31,324
Supplemental schedule of non-cash investing activities:				
Property, plant and equipment purchased on credit during the year	22,827	54,276	313,383	7,271
Property, plant and equipment purchased under capital lease		223,379	15,986	371
Contingent consideration			30,310	703
Promissory notes issued on acquisition		209,456		

See accompanying notes to the consolidated financial statements.

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share data and where otherwise stated)

1. Overview

Dr. Reddy s Laboratories Limited (DRL) together with its subsidiaries (collectively, the Company) is a leading India-based pharmaceutical company headquartered in Hyderabad, India. The Company s principal areas of operation are formulations, active pharmaceutical ingredients and intermediates, generics, custom pharmaceutical services, critical care and biotechnology and drug discovery. The Company s principal research and development facilities are located in Andhra Pradesh, India and in the United States; its principal manufacturing facilities are located in Andhra Pradesh, India and Cuernavaca-Cuautla, Mexico; and its principal marketing facilities are located in India, Russia, the United States, the United Kingdom, Brazil and Germany. The Company s shares trade on the Bombay Stock Exchange and the National Stock Exchange in India and, since April 11, 2001, on the New York Stock Exchange in the United States. As of March 31, 2007, the list of subsidiaries is as follows:

DRL Investments Limited (DRL Investments)

Reddy Pharmaceuticals Hong Kong Limited (RPHL)

Reddy Antilles N.V. (RANV)

Reddy US Therapeutics Inc. (Reddy US)

Dr. Reddy s Laboratories Inc. (DRLI)

Dr. Reddy s Farmaceutica Do Brazil Ltda. (DRFBL)

Aurigene Discovery Technologies Limited (ADTL)

Dr. Reddy s Laboratories (EU) Limited (DRL EU)

Dr. Reddy s Laboratories (Proprietary) Limited (DRSA)

Reddy Pharmaceuticals, Inc. USA (RPI)

Reddy Holding GmbH (RHG)

beta Healthcare Solutions GmbH (Beta HSG)

betapharm Arzneimittel GmbH (Beta AG)

beta institut fur sozialmedizinische Forschung und Entwicklung GmbH (Beta IG)

Lacock Holdings Limited (LHL)

OOO JV Reddy Biomed Limited (Reddy Biomed or RBL)

Reddy Netherlands B.V. (RNBV)

Reddy Cheminor SA (RCSA)

Aurigene Discovery Technologies Inc. (ADTI)

Dr. Reddy s Laboratories (U.K.) Limited (DRL U.K.)

Cheminor Investment Limited (CIL)

Dr. Reddy s Bio-sciences Limited (RBSL)

Trigenesis Therapeutics Inc. (Trigenesis)

Industrias Quimicas Falcon de Mexico S.A.de.C.V. (FALCON)

OOO Dr. Reddy s Laboratories Limited, Russia (OOO DRL)

Dr. Reddy s Laboratories (Australia) Pty Limited(DRLA)

Reddy Pharma Iberia S.A. (RPISA)

Reddy Pharma Italia SPA (RPISPA)

During fical 2007, beta Healthcare Verwaltungs GmbH (Beta HVG), beta Healthcare GmbH & Co KG (Beta KG) and beta Holding GmbH (Beta HG) were merged into RHG. RHG, Beta HSG, Beta AG and Beta IG are collectively referred to as betapharm, unless explicitly stated.

2. Significant accounting policies

a) Basis of preparation

The accompanying consolidated financial statements have been prepared in accordance with the accounting principles generally accepted in the United States (U.S. GAAP).

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share data and where otherwise stated)

2. Significant accounting policies (continued)

b) Estimates and assumptions

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

c) Functional currency

The functional currency of the Company is the Indian rupee, being the currency of the primary economic environment in which the Company operates. The functional currencies of the subsidiaries have been determined as follows based on an individual and collective evaluation of economic factors described in Statement of Financial Accounting Standards (SFAS) SFAS 52, Foreign currency translation :

Name of the subsidiary	**Functional Currency**
DRL Investments, RPHL, RANV, DRLI, DRFBL, ADTL, DRSA, RPI, OOO DRL, RBL, RNBV, RCSA, CIL, RBSL, Trigenesis and DRLA	Indian Rupee
Reddy US and ADTI	U.S. Dollar
DRL EU and DRL U.K.	Pound Sterling
FALCON	Mexican Peso
RHG, Beta HSG, Beta AG, Beta IG, RPISA, RPISPA and LHL	Euro

In respect of all non-Indian subsidiaries that operate as marketing arms of the parent company in their respective countries/regions (i.e., all those listed in the first row of the table above), the functional currency has been determined to be the functional currency of the parent company, i.e. the Indian rupee. Accordingly, the operations of these entities are largely restricted to import of finished goods from the parent company in India, sale of these products in the foreign country and remittance of the sale proceeds to the parent. The cash flows realized from sale of goods are readily available for remittance to the parent company and cash is remitted to the parent company on a regular basis. The costs incurred by these entities are primarily the cost of goods imported from the parent. The financing of these subsidiaries is done directly or indirectly by the parent company. In respect of the subsidiaries whose operations are self contained and integrated within their respective countries/regions (i.e., all those listed in the second through fifth rows of the table above), the functional currency has been determined to be the currency of those countries/regions. The assets and liabilities of such subsidiaries are translated into Indian rupees at the rate of exchange prevailing as at the balance sheet date. Revenues and expenses are translated into Indian rupees at average monthly exchange rates prevailing during the year. Resulting translation adjustments are included in accumulated other comprehensive income.

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share data and where otherwise stated)

2. Significant accounting policies (continued)

d) Foreign currency transactions

Foreign currency transactions are converted into Indian rupees at the rates of exchange prevailing on the date of the respective transactions. Assets and liabilities in foreign currency are converted into Indian rupees at the exchange rate prevailing on the balance sheet date. The resulting exchange gains/losses are included in the statement of operations.

e) Convenience translation (unaudited)

The accompanying financial statements have been prepared in Indian rupees, the national currency of India. Solely for the convenience of the reader, the financial statements as of and for the fiscal year ended March 31, 2007 have been translated into United States dollars at the noon buying rate in New York City on March 30, 2007 for cable transfers in Indian rupees, as certified for customs purposes by the Federal Reserve Bank of New York of U.S.$1 = Rs.43.10. No representation is made that the Indian rupee amounts have been, could have been or could be converted into United States dollars at such a rate or any other rate.

f) Principles of consolidation

The consolidated financial statements include the financial statements of DRL, all of its subsidiaries which are more than 50% owned, controlled and entities where the Company has variable interest; Dr. Reddy s Research Foundation (the Research Foundation), a special purpose entity that is funded by and carries out research activities on behalf of and for the benefit of the Company, and beta Institut for sociomedical research GmbH, a non-profit organization which is engaged in research and development to seek ways to improve the healthcare process in ways which promote the psychological welfare of patients, including development of patient pathways, case management, disease management and health systems management. The Company does not consolidate entities where the minority shareholders have certain significant participating rights which provide for effective involvement in significant decisions in the ordinary course of business. Such investments are accounted by the equity method of accounting. All inter-company balances and transactions are eliminated on consolidation.

The Company accounts for investments by the equity method of accounting where it is able to exercise significant influence over the operating and financing policies of the investee. The Company s equity in the income / loss of equity method affiliates, Kunshan Rotam Reddy Pharmaceuticals (Reddy Kunshan or KRRP), Pathnet India Private Limited (Pathnet), and Perlecan Pharma Private Limited (Perlecan Pharma) is included in the statement of operations. Inter company profits and losses have been eliminated until realized by the investor or investee.

Newly acquired subsidiaries have been included in the consolidated financial statements from the dates of acquisition. The Company follows Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised December 2003 FIN 46R), Consolidation of Variable Interest Entities (VIE), which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity.

For any VIEs that must be consolidated under FIN 46R, the interpretation generally requires the primary beneficiary initially to measure the assets, liabilities and noncontrolling interests of the newly consolidated VIE at their fair values at the date the enterprise first becomes the primary beneficiary.

Based on the evaluation of FIN 46R, the Company has consolidated the financial statements of APR LLC, a VIE. See footnote 17 for additional information required by FIN 46R.

g) Cash equivalents

The Company considers all highly liquid investments with remaining maturities, at the date of purchase / investment, of three months or less to be cash equivalents.

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2. Significant accounting policies (continued)

h) Revenue recognition

Product sales

Revenue is recognized when significant risks and rewards in respect of ownership of products are transferred to customers, generally, the stockists or formulations manufacturers and when the following criteria are met:

Persuasive evidence of an arrangement exists;

The price to the buyer is fixed and determinable; and

Collectibility of the sales price is reasonably assured.

Revenue from domestic sales of formulation products is recognized on dispatch of the product to the stockist by the consignment and clearing and forwarding agent of the Company. Revenue from domestic sales of active pharmaceutical ingredients and intermediates is recognized on dispatch of products to customers, from the factories of the Company. Revenue from export sales is recognized when significant risks and rewards are transferred to customers, which is based on terms of the contract.

Revenue from product sales includes excise duty and is shown net of sales tax and applicable discounts and allowances.

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

Sales of active pharmaceutical ingredients and intermediates in India are made directly to the end customers generally, formulation manufacturers, from the factories. Sales of formulations and active pharmaceutical ingredients and intermediates outside India are made directly to the end customers, generally stockists or formulations manufacturers, from the Company or its consolidated subsidiaries.

The Company has entered into marketing arrangements with certain marketing partners for sale of goods. Under such arrangements, the Company sells generic products to the marketing partners at a price agreed in the arrangement. Revenue is recognized on these transactions upon delivery of products to the marketing partners as all the conditions under Staff Accounting Bulletin No.104 (SAB 104) are met. Subsequently, the marketing partners remit an additional amount based on the ultimate sale proceeds upon further sales made by them to the end customer. Such amount is determined as per the terms of the arrangement and is recognized by the Company when the realization is certain under the guidance given in SAB 104.

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

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

The Company accounts for sales returns in accordance with SFAS 48, Revenue Recognition when Right to Return Exists by establishing an accrual in an amount equal to the Company s estimate of sales recorded for which the related products are expected to be returned.

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2. Significant accounting policies (continued)

The Company deals in various products and operates in various markets and the Company s estimate is determined primarily by its experience in these markets for the products. For returns of established products, the Company determines an estimate of the sales returns accrual primarily based on historical experience regarding sales returns. Additionally, other factors that the Company considers in its estimate of sales returns include levels of inventory in the distribution channel, estimated shelf life, product discontinuances, price changes of competitive products, introductions of generic products and introductions of competitive new products, to the extent each of them has an impact on the Company s business and its markets. The Company considers all of these factors and adjusts the accrual to reflect its actual experience.

With respect to new products that the Company introduces, they are either extensions of an existing line of products or in a general therapeutic category where the Company has historical experience. The Company s new product launches have historically been in therapeutic categories where established products exist and are sold either by the Company or its competitors. The Company has not yet introduced products in any new therapeutic category where the acceptance of such products is not known. The amount of sales returns for the Company s newly launched products are not significantly different from current products marketed by the Company, nor are they significantly different from the sales returns of the Company s competitors as the Company understands them to be based on industry publications and discussions with its customers. Accordingly, the Company does not expect sales returns for new products to be significantly different than expected sales returns of current products. The Company evaluates the sales returns of all of the products at the end of each reporting period and necessary adjustments, if any, are made. However, to date, no significant revision has been determined to be necessary.

Service income

Income from service, which primarily relate to contract research, is recognized as the related services are performed in accordance with the terms of the contract and when all the conditions under SAB 104 are met. Arrangements with customers for contract research and other related services are either on a fixed price, fixed timeframe or a time and material basis.

License fees

Non-refundable milestone payments are recognized in the statement of income when earned, in accordance with the terms prescribed in the license agreement, and where the Company has no future obligations or continuing involvement pursuant to such milestone payments. Non-refundable up-front license fees are deferred and recognized when the milestones are earned, in proportion that the amount of each milestone earned bears to the total milestone amounts agreed in the license agreement. As the upfront license fees are a composite amount and cannot be attributed to a specific molecule, they are amortized over the development period. The milestone payments during the development period increase as the risk involved decreases. The agreed milestone payments reflect the progress of the development of the molecule and may not be spread evenly over the development period. Further, the milestone payments are a fair representation of the extent of progress made in the development of these molecules. Hence, the upfront license fees are amortized over the development period in proportion to the milestone payments received. In the event, the development is discontinued, the corresponding amount of deferred revenue is recognized in the income statement in the period in which the project is effectively terminated.

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2. Significant accounting policies (continued)

i) Shipping and handling costs

Shipping and handling costs incurred to transport products to customers are included in selling, general and administrative expenses.

j) Inventories

Inventories are stated at the lower of cost or market value. Cost is determined using the first-in-first-out method for all categories of inventories except stores and spares, where cost is determined using the weighted average method. Stores and spares is comprised of packing materials, engineering spares (such as machinery spare parts) and consumables (such as lubricants, cotton waste and oils), which are used in operating machines or consumed as indirect materials in the manufacturing process. In the case of raw materials and stores and spares, cost equals the sum of the purchase price and attributable direct costs, less trade discounts. In the case of work-in-process and finished goods, cost equals the sum of direct labor, material costs and production overheads.

A write-down of inventory to the lower of cost or market value at the close of a fiscal period creates a new cost basis and is not marked up based on changes in underlying facts and circumstances.

Inventories are reviewed on a monthly basis for identification and write-off of slow-moving, obsolete and impaired inventory. Such write-downs, if any, are included in cost of revenues.

k) Investment securities

Investment securities consist of available for sale debt and equity securities and non-marketable equity securities accounted for by the cost method.

Available for sale securities are carried at fair value based on quoted market prices. For debt securities where quoted market prices are not available, fair value is determined using pricing techniques such as discounted cash flow analysis or at the swap rates and forward rate agreements on the date of the valuation, obtained from market sources. Unrealized holding gains and losses, net of the related tax effect, on available for sale securities are excluded from earnings and are reported as a separate component of stockholders equity until realized. Decline in the fair value of any available for sale security below cost that is determined to be other than temporary, results in reduction in the carrying amount to fair value. Such impairment is charged to the statement of operations. Realized gains and losses from the sale of available for sale securities are determined on a first-in-first-out method and are included in earnings.

Non-marketable equity securities accounted for by the cost method are stated at cost, less provision for any other than temporary decline in value.

l) Derivative financial instruments

The Company enters into forward foreign exchange contracts and options where the counterparty is generally a bank. The Company purchases forward foreign exchange contracts and options to mitigate the risk of changes in foreign exchange rates on accounts receivable and foreign currency loans and deposits. Although these contracts are effective as hedges from an economic perspective, they do not qualify for hedge accounting under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities as amended. Any derivative that is either not designated as a hedge, or is so designated but is ineffective per SFAS No. 133, is marked to market and recognized in income immediately.

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2. Significant accounting policies (continued)

m) Property, plant and equipment

Property, plant and equipment including assets acquired under capital lease agreements are stated at cost less accumulated depreciation. The Company depreciates property, plant and equipment over the estimated useful life using the straight-line method. The estimated useful lives of assets are as follows:

Buildings	
-Factory and administrative buildings	25 to 50 years
-Ancillary structures	3 to 15 years
Plant and machinery	3 to 15 years
Furniture, fixtures and office equipment	4 to 10 years
Vehicles	4 to 5 years
Computer equipment	3 to 5 years

Advances paid towards the acquisition of property, plant and equipment outstanding at each balance sheet date and the cost of property, plant and equipment not put to use before such date are disclosed under capital work-in-progress. The interest cost incurred for funding an asset during its construction period is capitalized based on the actual investment in the asset and the average cost of funds. The capitalized interest is included in the cost of the relevant asset and is depreciated over the estimated useful life of the asset.

n) Goodwill

Goodwill represents the cost of an acquired businesses in excess of the fair value of the identifiable tangible and intangible assets purchased. Goodwill is tested for impairment on an annual basis, relying on a number of factors including operating results, business plans and future cash flows. Recoverability of goodwill is evaluated using a two-step process. The first step involves a comparison of the fair value of a reporting unit with its carrying value. If the carrying value of the reporting unit exceeds its fair value, the second step of the process involves a comparison of the fair value and carrying value of the goodwill of that reporting unit. If the carrying value of the goodwill of a reporting unit exceeds the fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess. Goodwill of a reporting unit is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value.

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
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2. Significant accounting policies (continued)

o) Intangible assets

Intangible assets consist of core-technology rights and licenses, trademarks, product related intangibles, customer related intangibles (including customer contracts), marketing rights, marketing know-how, beneficial toll manufacturing contracts and non-competition arrangements. All intangible assets with definite life are amortized over the expected benefit period or the legal life, whichever is lower. Such periods are as follows:

Trademarks	
-Trademarks with indefinite life	Tested for impairment at least annually
-Trademarks with definite life	3 to 10 years
Core technology rights and licenses	10 to 15 years
Product related intangibles	12 to 15 years
Marketing rights	11 to 16 years
Non-competition arrangements	1.5 to 10 years
Marketing know-how	6 months
Customer-related intangibles including customer contracts	2 to 5 years
Beneficial toll manufacturing contract	24 months
Other intangibles	5 to 15 years

p) Impairment of long-lived assets

Long-lived assets and finite life intangibles are reviewed for impairment whenever events or changes in business circumstances indicate that the carrying amount of assets may not be fully recoverable. Each impairment test is based on a comparison of the undiscounted cash flows expected to be generated from the use of the asset to its recorded value. If impairment is indicated, the asset is written down to its fair value. Long-lived assets to be disposed are reported at the lower of the carrying value or fair value, less cost to sell.

q) Start-up costs

Costs of start-up activities including organization costs are expensed as incurred.

r) Research and development

Research and development cost is expensed as incurred. In-process technologies used in research and development projects and having no alternate future uses are expensed upon purchase. Capital expenditure incurred on equipment and facilities acquired or constructed for research and development activities and having alternative future uses, is capitalized as property, plant and equipment when acquired or constructed.

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
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2. Significant accounting policies (continued)

s) Stock-based compensation

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

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

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

	Fiscal Year ended March 31,		
	2005	**2006**	**2007**
Dividend yield	0.5%	0.5%	0.5%
Expected life	12-78months	12-78months	12-48months
Risk free interest rates	4.5-6.7%	5.7-7.5%	6.5-7.4%
Volatility	39.4-44.6%	23.4-36.9%	30.5-33.6%

As of March 31, 2007, the Company has four stock-based employee compensation plans, which are described more fully in Note 24. The Company and its subsidiary Aurigene Discovery Technologies Limited have two stock based employee compensation plans each.

The adoption of SFAS No. 123(R) did not have a material impact on the Company s stock-based compensation expense for the year ended March 31, 2007. Furthermore, the Company believes that the adoption of SFAS No. 123(R) will not have a material impact on the Company s future stock-based compensation expense. As of March 31, 2007, there was approximately Rs.201,490 of total unrecognized compensation cost related to unvested stock based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 3.7 years.

Under SFAS 123, the Company had a policy of recognizing the effect of forfeitures only as they occurred. Accordingly, as required by SFAS No. 123 (R), on April 1, 2006, the Company estimated the number of outstanding instruments which are not expected to vest and recognized income of Rs.14,806 representing the reversal of compensation cost for such instruments previously recognized in the income statement. For the years ended March 31, 2005, 2006 and 2007, an amount of Rs.144,001, Rs.162,249 and Rs.190,186, respectively, has been recorded as total employee stock based compensation expense.

t) Income taxes

Income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of

a change in tax rates is recognized in the statement of operations in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amount considered more likely than not to be realized.

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
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2. Significant accounting policies (continued)

u) Leases

Leases of property, plant and equipment where the Company has substantially all of the risks and rewards of ownership are classified as capital leases. The amount recorded is the lesser of the present value of the rental and other lease payments during the lease term, excluding that portion of the payments representing executory costs paid to the lessor, or the asset s fair value. The rental obligations, net of interest charges, are reflected in long term debt.

Leases that do not transfer substantially all of the benefits or risks of ownership are classified as operating leases and recorded as expenses on a straight line basis over the term of the lease.

v) Earnings per share

In accordance with SFAS No.128, Earnings per Share , basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period, using the treasury stock method for options, except where the results would be anti-dilutive.

If the number of common shares outstanding increases as a result of a stock dividend or stock split or decreases as a result of a reverse stock split, the computations of basic and diluted earnings per share are adjusted retroactively for all periods presented to reflect that change in capital structure. If such changes occur after the close of the reporting period but before issuance of the financial statements, the per-share computations for that period and any prior-period financial statements presented are based on the new number of shares.

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
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3. Business combinations

All of the Company s acquisitions have been accounted for using the purchase method of accounting. Revenues and expenses of the acquired businesses have been included in the accompanying consolidated financial statements beginning on the respective dates of acquisition. Contingent consideration pursuant to earnout agreements is accrued as an additional cost of the transaction when the contingency is resolved and the consideration is issued or becomes issuable.

Industrias Quimicas Falcon de Mexico, S.A. de C.V. (Falcon)

On December 30, 2005, the Company acquired 100% of the share capital of Industrias Quimicas Falcon de Mexico, S.A.de C.V. (Falcon), a Roche group company for a total purchase consideration of Rs.2,773,126 (U.S.$61,233). The Company has accounted for the acquisition under the purchase method as defined in SFAS No. 141, *Business Combinations* . Accordingly, the financial results of Falcon have been included in the consolidated financial statements since that date. Falcon was acquired with an intent to add steroid manufacturing capabilities and permit the Company to offer a full range of services in its custom pharmaceutical services business. The operations of Falcon relate to the manufacture and sale of active pharmaceutical ingredients and steroids in accordance with the customer s specifications.

The purchase cost of Rs.2,773,126 has been allocated as follows:

- Property, plant and equipment and intangible assets by third party valuer; and
- Others based on management s estimates.

Current assets	
Cash and cash equivalents	Rs. 217
Accounts receivable	39,736
Inventories	1,150,730
Other current assets	259,465
Property, plant and equipment	1,418,799
Intangible assets	
Customer contracts	51,493
Non-competition arrangement	20,242
Total assets	**2,940,682**
Liabilities assumed	(40,613)
Deferred tax liability, net	(126,943)
Purchase cost	Rs. 2,773,126

The weighted average useful lives of intangibles acquired are as follows:-

Customer contracts	2.6 years
Non-competition arrangement	3 years

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
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3. Business combinations (continued)

beta Holding GmbH

On March 3, 2006, the Company, through its wholly owned subsidiary Lacock Holdings Limited, acquired 100% of the outstanding common shares of beta Holding GmbH, which was subsequently merged into the Company s subsidiary Reddy Holding GmbH (see Note 1 above). Accordingly, the financial results of beta Holding GmbH have been included in the consolidated financial statements since that date. beta Holding GmbH is a leading generics pharmaceuticals company in Germany. Under the beta brand, the Company markets a broad and diversified portfolio comprising formulations, primarily solid dose, focused on medical conditions requiring long-term therapy that are typically prescribed by primary care physicians.

The aggregate purchase price of Rs.26,063,321 (Euro 482,654) includes direct acquisition cost amounting to Rs.201,548 (Euro 3,732). The acquisition agreement included the payment of contingent consideration amounting up to Rs.518,400 (Euro 9,600), which was paid into an escrow account. This amount is subject to set-off for certain indemnity claims in respect of legal and tax matters that might arise, pertaining to the periods prior to the acquisition. The escrow will lapse and be time barred at the end of 2013. Since the maximum amounts pertaining to such claims are determinable at the date of acquisition, the same has been included as part of the purchase price.

During the year ended March 31, 2007, the Company has completed the final allocation of the aggregate purchase price of Rs.26,063,321 (Euro 482,654) for beta Holding GmbH based on management s estimate of fair values and independent valuations of intangible assets as follows:

Current assets:	
Cash and cash equivalents	Rs. 1,357,395
Inventories	538,860
Other current assets	552,938
Property, plant and equipment	372,377
Intangibles:	
Trademarks	5,546,314
Product related intangibles	13,684,867
Beneficial toll manufacturing contract	621,058
Other assets	142,541
Goodwill	12,848,428
Total assets	35,664,778
Deferred tax liability, net	(7,241,686)
Liabilities assumed	(2,359,771)
Purchase cost	Rs. 26,063,321

As a result of the final allocation of the aggregate purchase price, there were revisions in useful lives of certain intangibles. and total intangibles increased from Rs.16,325,598 as at March 31, 2006 to Rs.19,852,239. In addition, goodwill decreased from Rs 14,958,766 as at March 31, 2006 to Rs 12,848,428 and deferred tax liability, net increased from Rs.5,825,388 as at March 31, 2006 to Rs 7,241,686.

Trademarks have an indefinite useful life and are therefore not subject to amortization but will be tested for impairment annually. The weighted average useful lives of other intangibles acquired are as follows:

Product related intangibles	14.5 years
Beneficial toll manufacturing contract	4.8 years

The adjustments to the values of intangibles, goodwill and deferred tax liability, net and revisions to useful lives did not have any material impact on the results of the fiscal year ended March 31, 2007.

As more fully described in Note 7, the Company in accordance with the amended agreement with its toll manufacturer has revised its estimated useful life of the intangible from 58 months to 24 months. Consequently the unamortized balance as on the date of such amendment is being amortized over the remaining revised estimated useful life

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3. Business combinations (continued)

All goodwill arising from the acquisition of beta Holding GmbH was assigned to the Company s generics segment.

Pro forma Information: The table below reflects unaudited pro forma consolidated results of operations as if both the Falcon and beta Holding GmbH acquisitions had been made at the beginning of the periods presented below:

	Fiscal Year ended March 31,	
	2005	**2006**
	(unaudited)	(unaudited)
Revenues	Rs. 28,658,645	Rs. 33,766,668
Net income	1,227,528	1,991,090
Earning per equity share Basic	8.02	13.00
Diluted	8.02	12.98
Weighted average number of equity shares used in computing earnings per equity share		
Basic	153,037,898	153,093,316
Diluted	153,119,602	153,403,846

The unaudited proforma consolidated results of operations is presented for illustrative purposes only and is not necessarily indicative of the operating results that would have occurred if the transaction had been consummated at the date indicated, nor it is necessarily indicative of future operating results of the combined companies and should not be construed as representative of these amounts for any future dates or periods.

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4. ***Assets acquired from PDL Biopharma, Inc***

On March 13, 2006, the Company acquired trademark rights to three off-patent products, along with all the physical inventories of the products, from PDL Biopharma, Inc (PDL) for a total consideration of Rs.122,691 (U.S.$2,750). PDL is a U.S. based biopharmaceutical company focused in the development and commercialization of therapies for treatment of inflammation and autoimmune diseases, acute cardiac conditions and cancer. As a result of the acquisition, the Company acquired an opportunity to sell generic versions of these products using their existing brand names.

The acquisition has been accounted for as a purchase of assets as PDL did not meet the definition of a business as described in EITF Issue No. 98-3, Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business .

The total purchase consideration has been allocated to the acquired assets as of March 31, 2006 based on a fair valuation carried out by the Company s management as follows:

Inventories	Rs. 115,845
Registered trademarks	6,846
	Rs. 122,691

The value attributable to the registered trademarks is amortized over the period over which the intangible assets are expected to contribute directly or indirectly to the future cash flows.

5. ***Assets acquired from Laboratorios Litaphar, S.A. (Litaphar)***

On April 15, 2006, the Company incorporated a new entity, Reddy Pharma Iberia, S.A., under the laws of Spain as a wholly owned subsidiary.

On May 19, 2006, Reddy Pharma Iberia, S.A. acquired marketing authorizations and marketing authorization applications (MAAs) for certain specialty pharmaceutical products, along with the related trademark rights and physical inventories of the products, from Laboratorios Litaphar, S.A. (Litaphar) for a total consideration of Rs.218,920 (Euro 3,740) including a contingent consideration of Rs.25,610. The amount of contingent consideration relates to four MAAs pending approval by the Spanish health authorities on the date of acquisition. The amount of contingent consideration will become payable upon approval by the authorities and subsequent transfer of MAAs to the Company. The purchase consideration consists of:

Inventory	Rs. 22,864
Product related intangibles	170,446
Contingent consideration (with respect to four MAAs)	25,610
	Rs. 218,920

Litaphar is a Spanish company engaged in the promotion, distribution and commercialization of pharmaceutical products and chemical-pharmaceutical specialties. As a result of this acquisition, the Company acquired an opportunity to sell those products using their existing brand names through its generics sales and marketing network.

The acquisition was accounted for as a purchase of assets as this acquisition did not meet the definition of a business as described in EITF Issue No 98-3.

During the year ended March 31, 2007, two of the four MAAs were approved by the authorities and transferred to DRL, and one MAA was rejected. Accordingly, the Company paid an amount of Rs 12,890 to Litaphar for the two approved MAAs and reduced the remaining contingent consideration by Rs.6,360 pertaining to the rejected MAA. As of March 31, 2007, the balance contingent consideration payable to Litaphar amounts to Rs 6,360, which relates to the

one pending and unapproved MAA.

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6. Goodwill

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

The following table presents the changes in goodwill during the years ended March 31, 2006 and 2007:

	Fiscal Year ended March 31,	
	2006	2007
Balance at the beginning of the year[1]	Rs. 1,743,442	Rs. 16,816,452
Acquired/adjusted during the year	15,073,010	(2,013,351)
Foreign exchange translation of goodwill on acquisition of betapharm		919,530
Balance at the end of the year[1]	Rs. 16,816,452	Rs. 15,722,631

Goodwill acquired/adjusted during the years ended March 31, 2006 and 2007 represents the following:

	Fiscal Year ended March 31,	
	2006	2007
Contingent consideration paid/payable in purchase business combinations	Rs. 114,244	Rs. 96,987
Excess of fair value over carrying value of acquired net assets in the acquisition of betapharm	14,958,766	
Adjustment on account of completion of final allocation of the purchase price in the acquisition of betapharm		(2,110,338)
	Rs. 15,073,010	Rs. (2,013,351)

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6. Goodwill (continued)

The following table presents the allocation of Goodwill to the various segments:

	As of March 31,	
	2006	**2007**
Formulations[1]	Rs. 349,774	Rs. 349,774
Active pharmaceutical ingredients and intermediates	997,025	997,025
Generics	15,379,216	14,285,395
Drug discovery	90,437	90,437
	Rs. 16,816,452	Rs. 15,722,631

(1) Includes goodwill arising on investment in an affiliate amounting to Rs.181,943.

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7. Intangible assets, net

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

The following table presents acquired and amortized intangible assets as of March 31, 2006 and 2007:

	As of March 31, 2006		
	Gross carrying amount	Accumulated amortization	Net carrying value
Trademarks	Rs. 2,575,224	Rs. 2,113,374	Rs. 461,850
Trademarks not subject to amortization	3,970,118		3,970,118
Product related intangibles	11,759,317	77,326	11,681,991
Beneficial toll manufacturing contract	621,058	10,708	610,350
Core technology rights and licenses	132,753		132,753
Non-competition arrangements	128,883	105,019	23,864
Marketing rights	94,369	9,222	85,147
Customer-related intangibles including customer contracts	167,233	98,799	68,434
Others	7,556	7,508	48
	Rs. 19,456,511	Rs. 2,421,956	Rs. 17,034,555

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

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7. Intangible assets, net (continued)

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

For the fiscal year ended March 31,	
2008	Rs. 1,487,406
2009	1,307,702
2010	1,023,142
2011	1,022,629
2012	982,135
Thereafter	7,937,926
Total	Rs. 13,760,940

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7. Intangible assets, net (continued)

The intangible assets (net of amortization) as of March 31, 2006 have been allocated to the following segments:

	Formulations	Generics	Custom Pharmaceutical Services	Total
Trademarks	Rs. 412,346	Rs. 49,504		Rs. 461,850
Trademarks not subject to amortization		3,970,118		3,970,118
Product related intangibles		11,681,991		11,681,991
Beneficial toll manufacturing contract		610,350		610,350
Core-technology rights and licenses		132,753		132,753
Non-competition arrangements		6,052	17,812	23,864
Customer related intangibles		24,082	44,352	68,434
Marketing rights		85,147		85,147
Others		48		48
	Rs. 412,346	Rs. 16,560,045	Rs. 62,164	Rs.17,034,555

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

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

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7. Intangible assets, net (continued)

Write-down of intangible assets acquired in Trigenesis acquisition

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

Change in estimated useful life of beneficial toll manufacturing contract intangible

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

Write-down of intangible assets acquired in betapharm acquisition

During the year ended March 31, 2007, triggered by the above contract amendment with Salutas resulting in supply constraints in the short term period and increased procurement prices and certain market events including continuing decreases in market price and increased competitive intensity, the Company tested carrying value of betapharm intangibles for impairment. The carrying value of these intangibles included certain product related intangibles and the beta brand. The Company markets a broad and diversified portfolio comprised of formulations, primarily solid dose, in the German generic market under the beta brand. beta brand was fair valued applying the relief from royalty method. As a result of this review, the Company recorded a write-down of intangible assets amounting to Rs.1,556,703 and adjusted the carrying value of the beta brand and certain product related intangibles as of March 31, 2007. The above write down, which has been disclosed under Write-down of intangible assets in the consolidated statement of operations, relates to the Company s generics segment and has been included in the Adjustments column in the tables above.

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8. Formation of Perlecan Pharma Private Limited

In September 2005, the Company announced the formation of an integrated drug development company, Perlecan Pharma Private Limited (Perlecan Pharma), as a joint venture with Citigroup Venture Capital International Growth Partnership Mauritius Limited (Citigroup Venture) and ICICI Venture Funds Management Company (ICICI Venture). Perlecan Pharma is engaged in the clinical development and out-licensing of New Chemical Entity (NCE) assets. Citigroup Venture and ICICI Venture each committed to contribute Rs.1,003,725 (U.S.$22,500) and the Company committed to contribute Rs.340,000 (U.S.$7,500) towards equity in Perlecan Pharma. The arrangement was subject to certain closing conditions which were completed on March 27, 2006 which resulted in the terms of the investment agreement being amended.

As a result, the Company owned approximately 14.28% of the equity of Perlecan Pharma as of March 31, 2006. In addition, Perlecan Pharma will issue to the Company warrants to purchase 45 million equity shares of Perlecan Pharma, at an exercise price of Re.1.00 per equity share, the exercise of which will be contingent upon the success of certain research and development milestones. If the warrants are fully exercised, then the Company will own approximately 62.5% of the equity shares of Perlecan Pharma.

As of March 31, 2006, the three investors had invested Rs.705,700 (U.S.$15,818) in Perlecan Pharma. The Company s share of equity was Rs.100,800 (U.S.$2,259) and the Company has also committed to invest an additional amount of Rs.239,200 (U.S.$5,241) as its proportionate equity contribution in the future. As per the terms of the amended agreement, the Company is to be reimbursed by Perlecan Pharma for research and development costs of Rs.231,023 it incurred prior to closing. Further, three out of seven directors on the board of Perlecan Pharma will be designated by the Company. In addition, as per the terms of the arrangement, the Company will have the first right to conduct product development and clinical trials on behalf of Perlecan Pharma on an arms length basis subject to the final decision by the board of directors of Perlecan Pharma. Considering these factors the Company has accounted for its investment in Perlecan Pharma in accordance with APB 18, The Equity Method of Accounting for Investments in Common Stock .

The Company s equity in the loss of Perlecan Pharma for the period ended March 28, 2006 to March 31, 2006 amounted to Rs.40,000. The reimbursement for the pre-closing research and development costs have been applied to reduce the carrying value of the equity investment in Perlecan Pharma as of March 31, 2006 to zero with the remaining balance of Rs.170,223 reflected as a deferred liability. The Company will continue to reflect its equity share of losses to the extent of its net investment and future funding commitments to Perlecan Pharma.

Furthermore, during the year ended March 31, 2007, the Company and the other two investors have also invested an additional Rs.69,200 and Rs.412,700 in Perlecan Pharma, respectively. As a result, the Company as of March 31, 2007 owns approximately 14.31% of the equity of Perlecan Pharma. During the year ended March 31, 2007 the Company s equity in the loss of Perlecan Pharma for the period ended March 31, 2007 amounted to Rs.63,339. As of March 31, 2007, the carrying value of the investment in Perlecan Pharma was Rs.3,309 and the deferred liability balance is Rs.170,223. In addition, as of March 31, 2007 the Company is committed to make an additional Rs.170,000 equity investment in Perlecan Pharma.

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9. Cash, cash equivalents and restricted cash

Cash and cash equivalents as of March 31, 2006 and 2007 amounted to Rs.3,712,637 and Rs.17,981,447, respectively. This excludes restricted cash included in current assets of Rs.1,606,245 and Rs.606,159 as of March 31, 2006 and 2007, respectively and restricted cash included in non-current assets of Rs.4,468,840 and Rs.Nil as of March 31, 2006 and 2007, respectively against the following obligations or commitments of the Company:

	As of March 31,	
	2006	**2007**
Restricted cash current		
Against performance guarantees issued by the Company	Rs. 1,394	Rs. 1,080
Against short term loan from State Bank of India	1,584,600	
Against long term loan from Citibank		584,517
Against unclaimed dividend	12,633	13,140
Against other obligations	7,618	7,422
	Rs. 1,606,245	Rs. 606,159
Restricted cash non current		
Against long term loan from Citibank	4,468,840	
Total restricted cash	Rs. 6,075,085	Rs. 606,159

The fair values of cash and cash equivalents approximate their carrying values. During the current year, the restriction on the cash deposits amounting to Rs.4,468,840 which were pledged against the long-term debt taken from Citibank, on closure of the syndication process was released and accordingly has been liquidated.

10. Accounts receivable, net

Accounts receivable as of March 31, 2006 and 2007 are stated net of allowance for doubtful accounts. The Company maintains an allowance for doubtful accounts on all accounts receivable, based on financial condition of the customer and ageing of the accounts receivable after considering historical experience and the current economic environment. Accounts receivable are generally not collateralized.

The activity in the allowance for doubtful accounts receivable is given below:

	Fiscal Year ended March 31,		
	2005	**2006**	**2007**
Balance at the beginning of the year	Rs. 139,569	Rs. 171,154	Rs. 188,001
Additional provision	79,442	33,629	151,620
Bad debts charged to provision	(47,857)	(16,782)	(46,003)
Balance at the end of the year	Rs. 171,154	Rs. 188,001	Rs. 293,618

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11. Inventories

Inventories consist of the following:

	As of March 31,	
	2006	**2007**
Raw materials	Rs. 2,002,246	Rs. 2,147,896
Packing materials, stores and spares	450,658	560,629
Work-in-process	1,421,151	1,674,235
Finished goods	3,020,657	3,162,820
	Rs. 6,894,712	Rs. 7,545,580

During the years ended March 31, 2005, 2006 and 2007, the Company recorded an inventory write-down of Rs.52,692, Rs.100,783 and Rs.306,235, respectively, resulting from a decline in the market value of certain finished goods and write down of certain raw materials and these amounts are included in the cost of revenues.

12. Other assets

Other assets consist of the following:

	As of March 31,	
	2006	**2007**
Prepaid expenses	Rs. 432,680	Rs. 479,141
Advances to suppliers	367,485	297,993
Balances with statutory authorities	928,423	1,066,559
Deposits	223,409	240,968
Export benefits receivable	291,210	347,814
Others	621,383	938,751
	2,864,590	3,371,226
Less: Current assets	2,639,818	3,096,129
	Rs. 224,772	Rs. 275,097

Balances with statutory authorities represent amounts deposited with the excise authorities and the unutilized excise input credits on purchases. These are regularly utilized to offset the excise liability on the goods produced. Accordingly, these balances have been classified as current assets.

Deposits mainly comprise telephone, premises and other deposits. Others mainly represent receivables of duties and income tax deducted at source on interest received by the Company.

13. Property, plant and equipment, net

Property, plant and equipment consist of the following:

	As of March 31,	
	2006	**2007**
Land	Rs. 861,951	Rs. 875,662
Buildings	2,470,029	3,063,872
Plant and machinery	7,966,645	9,974,476
Furniture, fixtures and office equipment	826,370	936,504

Vehicles	288,162	383,024
Computer equipment	514,935	679,076
Capital work-in-progress	1,135,905	2,805,221
	14,063,997	18,717,835
Accumulated depreciation	(4,977,666)	(6,290,037)
	Rs. 9,086,331	Rs. 12,427,798

Depreciation expense for the years ended March 31, 2005, 2006 and 2007 was Rs.959,299, Rs.1,147,223 and Rs.1,439,298, respectively.

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14. Investment securities

Investment securities consist of the following:

	As of March 31, 2006				As of March 31, 2007			
	Carrying value	Gross unrealized holding gains	Gross unrealized holding losses	Fair value	Carrying value	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Equity securities	Rs. 3,096	Rs. 8,520		Rs. 11,617	Rs. 3,096	Rs. 8,837		Rs. 11,933
Debt securities	1,250,020		(174,163)	1,075,857	1,250,020		(174,731)	1,075,289
	1,253,116	8,520	(174,163)	1,087,474	1,253,116	8,837	(174,731)	1,087,222
Non-marketable equity securities	2,728			2,728	2,728			2,728
	Rs. 1,255,844	Rs. 8,520	Rs. (174,163)	Rs1,090,202	Rs. 1,255,844	Rs. 8,837	Rs. (174,731)	Rs. 1,089,950
Current Mutual fund units	14,703			14,703	15,315	10		15,325
	Rs. 14,703			Rs. 14,703	Rs. 15,315	Rs. 10		Rs. 15,325

The following table shows the gross unrealized losses and fair value of the Company s investment with unrealized losses that are not deemed to be other-than-temporarily impaired and duration for which the securities have been in a continuous unrealized loss position as of March 31, 2007.

	12 months or greater	
	Fair value	Unrealized losses
Debt securities	1,075,289	174,731
	1,075,289	174,731

The unrealized losses on the Company s investment in debt securities were caused by interest rate increases. The Company purchased those investments at a discount relative to their face amount, and the face value is guaranteed by the issuer. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company has the ability and intent to hold these investments until maturity, the Company does not consider these investments to be other-than-temporarily impaired at March 31, 2007.

15. Leases

Capital leases

Property, plant and equipment includes Rs.223,379 and Rs.239,365 (accumulated depreciation of Rs.678 and Rs.9,420) in respect of assets acquired under capital leases and other beneficial rights of use as of March 31, 2006 and 2007, respectively.

The depreciation charge of Rs.Nil, Rs.678 and Rs.8,804 during the years ended March 31, 2005, 2006 and 2007, respectively is included within depreciation. The financial obligations arising from these contractual arrangements are reflected in long-term debt.

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15. Leases (continued)

Operating leases

The Company leases office and residential facilities under operating lease agreements that are renewable on a periodic basis at the option of both the lessor and the lessee. Rental expense under those leases was Rs.198,692, Rs.229,956 and Rs.325,677 for the years ended March 31, 2005, 2006 and 2007, respectively.

The schedule of future minimum rentals payments in respect of non-cancellable operating leases is set out below:

Fiscal Year ended March 31,	
2008	Rs. 136,618
2009	91,118
2010	68,210
2011	62,117
2012	49,032
Thereafter	67,181
	Rs. 474,276

16. Investment in affiliates

Reddy Kunshan: Reddy Kunshan is engaged in manufacturing and marketing of active pharmaceutical ingredients and intermediates and formulations in China. During the fiscal year ended March 31, 2007, the Company further invested Rs.89,274 along with one of its other joint venture partners in Reddy Kunshan. Consequently, the Company s interest in Reddy Kunshan increased from 51.2% as of March 31, 2006 to 51.3% as of March 31, 2007.

Three of the directors of the Company are on the board of directors of Reddy Kunshan, which comprises seven directors. Under the terms of the agreement, all decisions with respect to operating activities, significant financing and other activities are taken by the majority approval of at least five of the seven directors of the board. These significant decisions include amendments to the Articles, suspensions of the operations, alterations to the registered capital, etc. As the Company does not have control over the board and as the other partners have significant participating rights, acting on its own, the Company is not in a position to control or take any significant operating decisions of Reddy Kunshan and would require approval of other shareholders. Therefore, the Company has accounted for its interest in Reddy Kunshan under the equity method.

The Company s equity in the loss of Reddy Kunshan for the years ended March 31, 2005 and 2006 was Rs.58,101 and Rs.48,235, respectively, and Company s equity in the profit of Kunshan for the year ended March 31, 2007 was Rs.663. The carrying value of the investment in Reddy Kunshan as of March 31, 2006 and 2007 was Rs.132,659 and Rs.222,596, respectively.

Perlecan Pharma: As described in Note 8, the Company s equity in loss of Perlecan Pharma for the year ended March 31, 2006 and 2007 was Rs.40,000 and Rs.63,339, respectively. The carrying value of the investment in Perlecan Pharma as of March 31, 2006 and 2007 was Rs.Nil and Rs.3,309, respectively.

Pathnet: Pathnet is engaged in the business of setting up medical pathology laboratories. The Company acquired a 49% interest in Pathnet on March 1, 2001 for a consideration of Rs.4,000. During the fiscal year ended March 31, 2002, the Company further invested Rs.60,310 and has accounted for its 49% interest in Pathnet under the equity method. The carrying value of the investment in Pathnet as of March 31, 2005 was Rs.Nil. During the fiscal year ended March 31, 2006, the Company sold its stake in Pathnet and was released from its guarantee issued to ICICI Bank when its share of the outstanding loan amount granted by ICICI to Pathnet, Rs.21,000 was repaid.

17. Variable interest entities

On January 30, 2004, the Company along with two individuals formed APR LLC, a Delaware limited liability company. APR LLC is a development stage enterprise, which is in the process of developing an active pharmaceutical

ingredient (API). Equity capital of APR LLC consists of Class A equity interests, which are held by two individuals and Class B equity interests held by DRL. The initial contribution for the Class A interests was U.S.$400 (Rs.17,487) in cash. Class A interests carry voting rights and participate in the profits and losses of APR LLC in the normal course of business. DRL contributed U.S.$500 (Rs.21,859) in cash for Class B interests, which was used to acquire intellectual property rights. Class B interests carry certain protective rights only.

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17. Variable interest entities (continued)

Further, DRL has entered into a development and supply agreement under which DRL and APR LLC will collaborate in the development, marketing and sale of API and generic dosages. Under the terms of the agreement, DRL is committed to fund the entire research and development of API. This amount is repayable by APR LLC upon successful commercialization of the product. Under this agreement, the Company has paid U.S.$900 (Rs.39,346), U.S.$Nil (Rs.Nil) and U.S.$501 (Rs.21,774) during the years ended March 31, 2005, 2006 and 2007, respectively to fund ongoing research and development.

The Company has evaluated this transaction and believes that APR meets the criteria to be a variable interest entity and that the Company, being the primary beneficiary, is required to consolidate APR under the requirements of FIN 46R. Accordingly, on January 30, 2004, the Company recorded the net assets to the non-controlling interest at a fair value of U.S.$900 (Rs.39,346). The creditors of APR LLC do not have any recourse to the general credit of the Company, the primary beneficiary. There are no consolidated assets that are collateral for APR LLC s obligations.

18. Financial instruments

Concentration of risk: Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents, accounts receivable, investment securities and marketable securities. The Company s cash resources are invested with financial institutions with high investment grade credit ratings. Limits have been established by the Company as to the maximum amount of cash that may be invested with any such single entity. To reduce credit risk, the Company performs ongoing credit evaluations of customers.

Derivative financial instruments. The Company enters into certain forward foreign exchange contracts and certain derivative arrangements where the counterparty is generally a bank. The Company does not consider the risk of non-performance by the counterparty to be significant.

The following table presents the aggregate contracted principal amounts of the Company s derivative financial instruments outstanding:

	As of March 31,	
	2006	**2007**
Forward exchange contracts (U.S.$- Rs.) (sell)	U.S.$ 105,000	U.S.$ 397,500
Forward exchange contracts (U.S.$- Rs.) (buy)	U.S.$ 79,500	
Cross currency option contracts (EUR/U.S.$)		EUR 30,000
Forwards exchange contracts (EUR / U.S.$) (sell)	EUR 36,000	EUR 11,000
Interest rate swap	EUR 75,000	

The foreign forward exchange contracts mature between one to twelve months.

19. Research and development arrangements

The Company undertakes a significant portion of the research and development activities relating to drug discovery through its research facilities located in the United States and India. The Company under an existing arrangement also undertakes research and development activities through the Research Foundation, a special purpose entity, organized as a Section 25 company under the Indian Companies Act, to avail certain tax benefits under the Indian Income Tax Rules. At present, the Research Foundation does not undertake research and development activity for any other entity. The operations of the Research Foundation are funded by the Company and as a result this entity has been consolidated in the financial statements. The Company has the first right to use the intellectual property rights relating to patents, copyrights, trademarks and know-how discovered or developed by the Research Foundation.

During the fiscal year ended March 31, 2005, the Company entered into an agreement with I-VEN Pharma Capital Limited (I-VEN) for the joint development and commercialization of generic drug products. As per the terms of the agreement, I-VEN will have the right to fund up to fifty percent of the project costs (development, registration and legal costs) related to these products and the related U.S. Abbreviated New Drug Applications (ANDA) filed or to be filed in the fiscal years ended March 31, 2005 and March 31, 2006, subject to a maximum contribution of

U.S.$56,000. The terms of the arrangement do not require the Company to

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19. Research and development arrangement (continued)

repay the funds or purchase I-VEN s interest in the event that the Company is not able to develop or commercialize one or more of the products subject to this agreement. However, upon successful commercialization of these products, the Company will pay I-VEN a royalty on net sales at agreed rates for a period of 5 years from the date of commercialization of each product. The first tranche advanced by I-VEN of Rs.985,388 (U.S.$22,500) was received on March 28, 2005.

The amount received from I-VEN has been treated as an advance and is being recognized in the income statement as a credit to research and development expenses upon completion of specific milestones as detailed in the agreement. A milestone (i.e. a product filing as per the terms of the agreement) will be completed once the appropriate ANDA has been submitted to the U.S. FDA. Achievement of a milestone entitles the Company to take a credit to the research and development expenses in a fixed amount equal to I-VEN s share of the research and development costs of the product, which share varies depending on whether the ANDA is a Paragraph III or Paragraph IV filing. During the year ended March 31, 2007, the Company signed an amendment agreement has with I-VEN to reflect a change in the product portfolio and the royalty rate. The Company has reduced Rs.96,239, Rs.384,488 and Rs.452,763 from research and development expenses during the years ended March 31, 2005, 2006 and 2007, respectively.

20. Borrowings from banks

The Company had a line of credit of Rs 10,760,000 and Rs 14,723,000 as of March 31, 2006 and 2007, respectively, from its bankers for working capital requirements. The line of credit is renewable annually. The Company has an option to draw down the balance of the line of credit based on its requirements.

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

	Fiscal Year ended		
	March 31, 2005	**March 31, 2006**	**March 31, 2007**
Rupee borrowings	10.25%	10.5%	9%
Foreign currency borrowings	Libor + 65 bps	Libor + 65 bps	Libor + 60 bps

21. Long-term debt

Long-term debt consists of the following:

	As of March 31,	
	2006	**2007**
Rupee term loan	Rs. 25,145	Rs. 19,225
Euro loan	21,602,000	21,269,514
Obligation under capital lease	235,748	252,510
	21,862,893	21,541,249
Less: Current portion		
- Rupee term loan	5,920	5,920
- Euro loan	900,083	3,658,691
- Obligation under capital lease	19,758	5,655
	925,761	3,670,266
Non Current Portion		
- Rupee term loan	19,225	13,305

- Euro Loan	20,701,917	17,610,823
- Obligation under capital lease transaction	215,900	246,855
	Rs. 20,937,132	Rs. 17,870,983

Rupee term loan represents a loan from Indian Renewable Energy Development Agency Limited which is secured by way of hypothecation of specific movable assets pertaining to the Company s solar grid interactive power plant located in Bachupally, Hyderabad.

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21. Long-term debt (continued)

Euro loan represents a loan originally received from Citibank, N.A., Hong Kong to fund the acquisition of beta Holding GmbH (which was subsequently merged into Reddy Holding GmbH) in March 2006.

During fiscal 2007, the Rs.21,602,000 (Euro 400 million) initially funded loan by Citibank N.A., Hong Kong was subsequently syndicated into a non recourse loan of Rs.5,787,000 (Euro 100 million), with Reddy Holding GmbH as the borrower and a recourse loan of Rs.15,482,514 (Euro 268 million), with Lacock Holding Limited as the borrower guaranteed by the Company and its wholly owned subsidiaries, OOO DRL, DRLI and DRL U.K. As part of the syndication process, an amount of Rs.1,882,620 (Euro 32 million) was repaid to Citibank N.A. The Company paid an amount of Rs 429,808 as debt issuance costs, which is being amortized over the period of the debt.

Furthermore, the Company is also subject to certain financial covenants under both the recourse and the non recourse loans, which includes limits on capital expenditure and maintenance of financial ratios (computed based on local GAAP financial statements) as defined in the respective facilities agreement. Such financial ratio requirements include: (a) Consolidated Net Debt to Consolidated Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA) not to exceed 3.5:1 for the recourse loan and 4.25:1 for the non-recourse loan, (b) Consolidated EBITDA to Consolidated Interest Expenses shall not be less than 3:1 for the recourse loan and 3.75:1 for the non recourse loan, (c) Total Debt shall not exceed Consolidated Net worth for the recourse loan and (d) Consolidated Free Cash Flow to Consolidated Debt Service for the non recourse loan shall not be less than 1:1. As of March 31, 2007, the Company was in compliance with such financial covenants.

An interest rate profile of long-term debt is given below:

	Fiscal Year ended March 31,		
	2005	**2006**	**2007**
Foreign currency loan notes	4.8%		
Rupee term loan	2%	2.0%	
Euro loan		EURIBOR + 150 bps	EURIBOR+ 70 bps-200 bps

A maturity profile of the long-term debt outstanding as of March 31, 2007 is as follows:

Maturing in the year ending March 31,	Rupee loan	Euro loan	Capital lease	Total
2008	5,920	3,658,691	5,655	3,670,266
2009	5,920	2,314,612	6,022	2,326,554
2010	5,920	3,861,416	6,412	3,873,748
2011	1,465	4,595,242	6,828	4,603,535
2012		6,839,553	7,270	6,846,823
Thereafter			220,323	220,323
	19,225	21,269,514	252,510	21,541,249

The fair value of outstanding payments on the Rupee term loan was Rs.19,953 and Rs.16,562 as of March 31, 2006 and 2007, respectively. The fair value of outstanding payments on the Euro loans were Rs.21,602,000 and Rs.21,269,514 as of March 31, 2006 and 2007, respectively.

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22. Shareholders equity

Equity shares and dividend

The Company presently has only one class of equity shares. For all matters submitted to vote in the shareholders meeting, every holder of equity shares, as reflected in the records of the Company on the date of the shareholders meeting shall have one vote in respect of each share held.

Indian statutes mandate that the dividends shall be declared out of the distributable profits only after the transfer of up to 10% of net income computed in accordance with current regulations to a general reserve. Should the Company declare and pay dividends, such dividends will be paid in Indian rupees to each holder of equity shares in proportion to the number of shares held by him to the total equity shares outstanding as on that date. Indian statutes on foreign exchange govern the remittance of dividend outside India.

In the event of liquidation of the Company, all preferential amounts, if any, shall be discharged by the Company. The remaining assets of the Company, after such discharge, shall be distributed to the holders of equity shares in proportion to the number of shares held by them.

Dividends on common stock are recorded as a liability at the point of their approval by the shareholders in the annual general meeting. The shareholders approved and the Company paid dividends (including dividend tax) of Rs.431,615, Rs.436,368 and Rs.437,497 during the years ended March 31, 2005, 2006 and 2007, respectively. The dividend per share was Rs.5.00, Rs.5.00 and Rs.5.00 during the years ended March 31, 2005, 2006 and 2007, respectively.

During the year ended March 31, 2007 the shareholders of the Company approved a one-for-one stock dividend on the equity shares of the Company. Consequently, the authorized share capital of the Company was increased from Rs.500,000 as of March 31, 2006 to Rs.1,000,000 effective July 28, 2006. The stock dividend had the effect of a stock split with one additional share being issued for every share held. The additional share of common stock was distributed on August 30, 2006 to shareholders of record as of August 29, 2006.

The information pertaining to number of shares, number of options, exercise price and earnings per share has been retroactively changed in the consolidated financial statements and notes to the consolidated financial statements for all periods presented, except for options earmarked under Category B where the exercise price is equal to the par value of the underlying equity shares (i.e. Rs.5 per option).

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23. Deferred revenue

The Company had entered into an agreement with Novartis Pharma AG (Novartis), whereby it agreed to provide Novartis with an exclusive license to develop, promote, distribute, market and sell certain products to be further developed into drugs for the treatment of specified diseases. Pursuant to the terms of the agreement, during the fiscal year ended March 31, 2002, the Company received Rs.235,550 (U.S.$5,000) as an up-front license fee. As the up-front license fee did not represent the culmination of a separate earning process, the up-front license fee had been deferred to be recognized in accordance with the Company s accounting policy proportionately upon the receipt of stated milestones payments. The agreement with Novartis for the further development of the compound expired on May 30, 2004 and Novartis has determined to discontinue further development and, accordingly, the Company recognized the entire amount of deferred revenue of Rs.235,550 (U.S.$5,000) as license fees during the fiscal year ended March 31, 2005.

The Company had entered into a licensing arrangement with Novo Nordisk A/S in February 1997, whereby the Company had licensed two molecule compounds for further development and conducting clinical trials. Under the arrangement, the Company received a non-refundable upfront license fee upon signing of the agreement and was also entitled to receive certain additional non-refundable payments upon the achievement of certain defined milestones. As of March 31, 2004, the Company had unamortized non-refundable upfront license fees of Rs.52,832 (U.S.$1,273) on account of the second molecule compound. On October 22, 2004, Novo Nordisk announced that it had suspended clinical trials on both compounds due to unsatisfactory results. Accordingly, the Company has recognized the entire amount of deferred revenue of Rs.52,832 (U.S.$1,273) as license fees during the fiscal year ended March 31, 2005.

The Company has entered into certain dossier sales, licensing and supply arrangements in Europe and Japan. These arrangements include certain performance obligations and based on an evaluation that these obligations are not inconsequential or perfunctory, the Company has deferred the upfront payments received towards these arrangements. These amounts will be recognized in the income statement in the period in which the Company completes all its performance obligations.

Upon completion of its entire performance obligation for some of the contracts, the Company recognized an amount of Rs.7,355, Rs.47,521 and Rs.27,542 in the income statement during the years ended March 31, 2005, 2006 and 2007, respectively. The balance amounts aggregating Rs 56,466 and Rs.86,302 as of March 31, 2006 and 2007, respectively, represent the deferred revenue relating to these arrangements.

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24. Employee stock incentive plans

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

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

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

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

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

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

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

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

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

After the stock dividend, DRL 2002 Plan provide for stock option grants in two categories as follows:

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

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24. Employee stock incentive plans (continued)

Stock option activity under the DRL 2002 Plan in the two categories of options (i.e., fair market value and par value options) was as follows:

Category A - Fair Market Value Options	Fiscal Year ended March 31, 2005			
	Shares arising out of options	**Range of exercise prices**	**Weighted-average exercise price**	**Weighted-average remaining contractual life (months)**
Outstanding at the beginning of the year	1,822,076	Rs. 441.5-698	Rs. 484.48	66
Granted during the year	933,000	373.5-442.5	436.41	82
Expired / forfeited during the year	(705,314)	382.5-531.51	459.42	
Surrendered by employees during the year in exchange of category B options	(1,451,862)	373.5-698	464.04	
Exercised during the year				
Outstanding at the end of the year	597,900	373.5-574.5	488.66	50
Exercisable at the end of the year	377,076	Rs. 441.5-574.5	Rs. 498.27	35

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24. Employee stock incentive plans (continued)

Category A - Fair Market Value Options — **Fiscal Year ended March 31, 2006**

	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted-average remaining contractual life (months)
Outstanding at the beginning of the year	597,900	Rs. 373.5-574.50	Rs. 488.66	50
Granted during the year	65,000	362.50	362.50	81
Expired / forfeited during the year	(93,400)	362.5-574.50	472.18	
Surrendered by employees during the year	(180,000)	488.65-531.51	517.23	
Exercised during the year	(155,000)	441.5-488.65	471.92	
Outstanding at the end of the year	234,500	362.5-531.51	439.43	64
Exercisable at the end of the year	75,764	Rs. 362.5-531.51	Rs. 471.93	45

Category A - Fair Market Value Options — **Fiscal Year ended March 31, 2007**

	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted-average remaining contractual life (months)
Outstanding at the beginning of the year	234,500	Rs. 362.5-531.51	Rs. 439.43	64
Granted during the year				
Expired / forfeited during the year	(11,600)	441.5-574.5	527.8	
Exercised during the year	(31,320)	441.5-531.51	477.4	
Outstanding at the end of the year	191,580	362.5-531.51	427.9	54
Exercisable at the end of the year	103,680	Rs. 362.5-531.51	Rs. 447.58	38

Category B - Par Value Options — **Fiscal Year ended March 31, 2005**

	Shares arising	Range of	Weighted-average exercise price	Weighted-average remaining contractual life (months)

	out of options	exercise prices			
Outstanding at the beginning of the year					
Granted during the year					
In exchange for category A surrendered options	561,746	Rs. 5	Rs. 5		84
New options	205,300	5	5		84
Forfeited during the year	(7,948)	5	5		
Exercised during the year					
Outstanding at the end of the year	759,098	Rs. 5	Rs. 5		84
Exercisable at the end of the year					

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24. Employee stock incentive plans (continued)

Category B - Par Value Options	Fiscal Year ended March 31, 2006			
	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted-average remaining contractual life (months)
Outstanding at the beginning of the year	759,098	Rs. 5	Rs. 5	84
Granted during the year	433,720	5	5	81
Forfeited during the year	(266,608)	5	5	
Exercised during the year	(196,242)	5	5	
Outstanding at the end of the year	729,968	5	5	81
Exercisable at the end of the year	36,272	Rs. 5	Rs. 5	59

Category B - Par Value Options	Fiscal Year ended March 31, 2007			
	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted-average remaining contractual life (months)
Outstanding at the beginning of the year	729,968	Rs. 5	Rs. 5	81
Granted during the year	427,060	5	5	81
Forfeited during the year	(76,056)	5	5	
Exercised during the year	(191,720)	5	5	
Outstanding at the end of the year	889,252	5	5	77
Exercisable at the end of the year	43,256	Rs. 5	Rs. 5	51

The weighted average grant date fair value of options granted under the DRL 2002 Plan at fair market value during the years ended March 31, 2005 and 2006 was Rs.377.60 and Rs.293.42, respectively. The weighted average grant date fair value for options granted under the DRL 2002 Plan at par value during the years ended March 31, 2005, 2006 and March 31, 2007 was Rs.707.40, Rs.705.88 and Rs.575.36, respectively.

The aggregate intrinsic value of options exercised under the DRL 2002 Plan during fiscal 2005, 2006 and 2007 was Rs.Nil , Rs.72 million and Rs.69 million, respectively. As of March 31, 2007 options outstanding and exercisable under the DRL 2002 Plan had an aggregate intrinsic value of Rs.449 million and Rs.16 million, respectively.

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

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

No options were granted under this plan in the year ended March 31, 2007.

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24. Employee stock incentive plans (continued)

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

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

Stock option activity under the Aurigene ESOP Plan was as follows:

	Fiscal Year ended March 31, 2005			
	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted-average remaining contractual life (months)
Outstanding at the beginning of the year	169,188	Rs. 10	Rs. 10	65
Granted during the year	342,381	10	10	61
Expired / forfeited during the year	(314,391)	10	10	
Outstanding at the end of the year	197,178	Rs. 10	Rs. 10	59
Exercisable at the end of the year				

	Fiscal Year ended March 31, 2006			
	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted-average remaining contractual life (months)
Outstanding at the beginning of the year	197,178	Rs. 10	Rs. 10	59
Granted during the year	500,000	10	10	70
Expired / forfeited during the year	(168,271)	10	10	
Outstanding at the end of the year	528,907	Rs. 10	Rs. 10	67
Exercisable at the end of the year				

	Fiscal Year ended March 31, 2007			
		Range of	Weighted-	Weighted-average remaining

	Shares arising out of options	exercise prices	average exercise price	contractual life (months)
Outstanding at the beginning of the year	528,907	Rs. 10	Rs. 10	67
Granted during the year	910,786	10	10	66
Expired / forfeited during the year	(256,110)	10	10	
Outstanding at the end of the year	1,183,583	10	10	62
Exercisable at the end of the year	7,470	Rs. 10	Rs. 10	28

The weighted average grant date fair value for options granted under the Aurigene ESOP Plan during the years ended March 31, 2005, 2006 and March 31, 2007 was Rs.4.29, Rs.4.01 and Rs.3.11, respectively.

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24. Employee stock incentive plans (continued)

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

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

Stock option activity under the Management Plan was as follows:

	Fiscal Year ended March 31, 2005			
	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted-average remaining contractual life (months)
Outstanding at the beginning of the year	616,666	Rs. 10	Rs. 10	77
Granted during the year	616,667	10	10	73
Expired during the year	(1,133,333)	10	10	
Outstanding at the end of the year	100,000	Rs. 10	Rs. 10	65
Exercisable at the end of the year	100,000	Rs. 10	Rs. 10	65

	Fiscal Year ended March 31, 2006			
	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted-average remaining contractual life (months)
Outstanding at the beginning of the year	100,000	Rs. 10	Rs. 10	65
Granted during the year				
Expired during the year	(100,000)	10	10	
Outstanding at the end of the year				
Exercisable at the end of the year				

No options were granted during the year ended March 31, 2007 under the Aurigene Management Plan. As of March 31, 2007, there were no outstanding stock options under the Management Plan.

The weighted average grant date fair value for options granted under the Aurigene Management Plan during the fiscal year ended March 31, 2005 was Rs.3.76.

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25. Allowances for sales returns

Product sales are net of allowances for sales returns. The activity in allowances for sales returns is given below:

	Fiscal Year ended March 31,		
	2005	**2006**	**2007**
Balance at the beginning of the year	Rs. 99,919	Rs. 95,123	Rs. 168,356
Acquired during the year		51,251	
Additional provision	105,245	239,462	1,325,981
Sales returns charged to the provision	(110,041)	(217,480)	(747,319)
Balance at the end of the year	Rs. 95,123	Rs. 168,356	Rs. 747,018

26. Other operating (income)/ expense, net

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

	Fiscal Year ended March 31,		
	2005	**2006**	**2007**
Gain on sale of property, plant and equipment, net	Rs. (1,810)	Rs. (320,361)	Rs. (67,039)
Loss on sale of subsidiary interest	8,122		
Other	(343)		
	Rs. 5,969	Rs. (320,361)	Rs. (67,039)

The above gain on sale of property, plant and equipment for the year ended March 31, 2006 includes an amount of Rs.387,337 on account of sale of one of the manufacturing facilities of the Company in Goa, India.

27. Other income/(expense) net

Other income/(expense) consists of the following:

	Fiscal Year ended March 31,		
	2005	**2006**	**2007**
Interest expense	Rs. (103,027)	Rs. (298,603)	Rs. (1,575,408)
Interest income	374,928	717,410	520,709
Gain / (loss) on sale of available for sale securities, net	64,997	(3,924)	869
Other	117,339	118,723	392,348
	Rs. 454,237	Rs. 533,606	Rs. (661,482)

28. Profit share arrangements

In January 2006, the Company entered into an agreement with Merck & Co., Inc. (Merck), allowing it to distribute and sell generic versions of finasteride tablets 5 mg and simvastatin tablets 10 mg, 20mg, 40mg and 80mg (sold by Merck under the brand names Proscar® and Zocor®), upon the expiration of Merck s patents covering these products, provided that another company obtains 180-day exclusivity after the expiration of the patents for either product. Subsequent to the Company s entering into this agreement, the patents for both of these products expired and other companies obtained 180-day exclusivity, allowing the Company to launch the authorized generics products. Accordingly, the Company launched these products in June 2006. Under the agreement, during the exclusivity period, the Company procured the products from Merck at specified rates and sold it to its customers. Furthermore, as per the

terms of the agreement, the Company pays Merck an additional profit share computed based on a pre determined formula. During the year ended March 31, 2007, the Company recorded net revenues of Rs.15,812,830 from the sale of authorized generic versions of Proscar® and Zocor®.

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29. Shipping costs

Selling, general and administrative expenses include shipping and handling costs of Rs.642,508, Rs.823,883 and Rs.1,233,308 for the years ended March 31, 2005, 2006 and 2007, respectively.

30. Income taxes

Income taxes consist of the following:

	Fiscal Year ended March 31,		
	2005	**2006**	**2007**
Pre-tax income			
Domestic	Rs. 562,343	Rs. 2,144,176	Rs. 11,584,770
Foreign	(455,314)	(256,853)	(1,084,495)
	Rs. 107,029	Rs. 1,887,323	Rs. 10,500,275
Income tax benefit / (expense) attributable to continuing operations:			
Current taxes:			
Domestic	Rs. (250)	Rs. (279,466)	Rs. (1,589,571)
Foreign	(1,053)	(34,081)	(690,963)
	(1,303)	(313,547)	(2,280,534)
Deferred taxes:			
Domestic	190,087	(48,503)	47,392
Foreign	(94,507)	103,660	1,056,206
	95,580	55,157	1,103,598
	Rs. 94,277	Rs. (258,390)	(1,176,936)
Deferred tax benefit attributable to other comprehensive income	Rs. 5,206	Rs. 35,079	Rs. 20,146

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30. Income taxes (continued)

The reported income tax expense differed from amounts computed by applying the enacted tax rates to income / (loss) before income taxes as a result of the following:

	Fiscal Year ended March 31,		
	2005	**2006**	**2007**
Income before income taxes and minority interest	Rs. 107,029	Rs. 1,887,323	Rs. 10,500,275
Enacted tax rate in India	36.5925%	33.66%	33.66%
Computed expected tax benefit / (expense)	Rs. (39,164)	Rs. (635,272)	(3,534,393)
Effect of:			
Differences between Indian and foreign tax rates	13,362	(8,546)	79,056
Valuation allowance	(254,243)	(142,206)	99,564
In-process technology written-off	(110,771)		
Expenses not deductible for tax purposes	(36,552)	(67,403)	(70,951)
ESOP cost not deductible for tax purpose	(52,694)	(54,614)	(22,391)
Interest expenses not deductible for tax purpose			(293,205)
Income exempt from income taxes	333,310	538,151	2,100,801
Foreign exchange (loss) / gain	(5,300)	8,335	10,871
Incremental deduction allowed for research and development expenses	254,245	166,308	390,097
Indexation of capital assets	8,275	1,413	1,828
Tax rate change	(9,466)	12,534	55,755
Minimum alternate tax	(3,910)	(3,019)	(2,108)
Resolution of prior period tax matters		(73,970)	
Others	(2,815)	(101)	8,140
Income tax benefit / (expense)	Rs. 94,277	Rs. (258,390)	Rs. (1,176,936)

The Company benefits from certain significant tax incentives provided to export oriented units (i.e., a unit that exports its production to customers abroad) and units located in certain specified backward areas under the Indian tax laws.

These incentives presently pertain to an exemption from payment of Indian corporate income taxes for some of the Company s units for a period of ten consecutive years of operations, beginning from the financial year when that particular unit commenced its operations (referred to as the tax holiday period). These tax holiday periods for the various units expire in various years ranging from the year ending March 31, 2008 through the year ending March 31, 2016.

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30. Income taxes (continued)

The tax effects of significant temporary differences that resulted in deferred tax assets and liabilities and a description of the items that create these differences is given below:

	As of March 31,	
	2006	**2007**
Deferred tax assets:		
Inventory	47,407	154,735
Deferred revenue	7,957	3,508
Minimum Alternate Tax	140,400	
Accounts payable	47,655	47,445
Investments	169,737	192,028
Operating loss carry-forward	1,320,961	985,753
Capital loss carry forward	44,622	44,622
Expenses deferred for tax purposes		
Research and development expenses	47,787	47,738
Employee costs	34,062	(35,746)
Legal costs	33,269	11,899
Start-up costs	37,460	35,464
Others	15,464	52,564
Liability for pension benefit on initial adoption of SFAS 158		20,019
Stock based compensation		9,261
Other current liabilities	179,178	287,964
	2,125,959	1,857,254
Less: Valuation allowance	(923,598)	(824,034)
Deferred tax assets	1,202,361	1,033,220
Deferred tax liabilities		
Property, plant and equipment	(824,174)	(828,196)
Intangible assets	(6,425,661)	(7,233,314)
Investment securities	(12,964)	(12,964)
Others	(162,691)	(113,875)
Deferred tax liabilities	(7,425,490)	(8,188,349)
Net deferred tax assets / (liabilities)	(6,223,129)	(7,155,129)
Deferred charges	50,705	156,693
	Rs. (6,172,424)	Rs. (6,998,436)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets and tax loss carry forwards is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. Management considers the scheduled reversal of the projected future

taxable income and tax planning strategy in making this assessment. Based on the level of historical taxable income and projections for future taxable incomes over the periods in which the deferred tax assets are deductible, management believes that it is more likely than not the Company will realize the benefits of those deductible differences and tax loss carry forwards, net of the existing valuation allowances. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

Operating loss carry forward comprises business losses and unabsorbed depreciation. The period for which such losses can be carried forward differs from five years to indefinite.

The Company has during the year, set up a full valuation allowance against the deferred tax asset on account of tax effect of operating and capital losses carry forward and other net deferred tax assets of RNBV, RBL, RCSA, DRSA, DRFBL, and others amounting to Rs.354,748.

Valuation allowance has been created with regard to initial operating losses arising out of RPISA and RPISPA amounting to Rs.1,793 and Rs.27,357, respectively, as the management based on future profit projections believes that the likelihood of not realizing these deferred tax assets is more likely than not

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30. Income taxes (continued)

Valuation allowance has been created with regard to operating losses and other net deferred tax assets arising out of ADTL, amounting to Rs.17,526 as this subsidiary specializes in research activities and the Company believes that the likelihood of not realizing these deferred tax assets is more likely than not.

The Company has, during fiscal 2007, reversed the valuation allowance created against deferred tax assets as of March 31, 2006 at RUSTI and DRLI amounting to Rs.24,240 and Rs.277,620, respectively, as the management based on the future profit projections believes that the likelihood of realizing these deferred tax assets is more likely than not.

Income exempt from tax represents export earnings exempt for tax purposes and earnings derived from units set up in backward areas for which the Company is eligible for tax concessions under the local laws.

Incremental deduction allowed for research and development expenses represents tax incentive provided by the government of India for carrying out such activities.

As of March 31, 2007 the Company had operating and capital loss carry-forward of Rs.2,978,451 that expires as follows:

Expiring in the year ending March 31,	
2008	Rs. 217,651
2009	14,576
2010	
2011	
2012	
Thereafter (2013 - 2024)	832,099
Thereafter (indefinite)	1,914,125
	Rs. 2,978,451

Furthermore, as of March 31, 2007 the Company had capital loss carry forward of Rs.176,422 that expires on March 31, 2013 and Rs.22,430 that expires on March 31, 2014 and the valuation allowance for the same has been created accordingly.

Undistributed earnings of the Company s foreign subsidiaries and unrecognized deferred tax liability on the same amounted to approximately Rs.273,274, Rs.307,012, Rs.700,761 and Rs.100,163, Rs.103,340 and Rs.235,876 as of March 31, 2005, 2006 and 2007, respectively. Such earnings are considered to be indefinitely reinvested and, accordingly no provision for income taxes has been recorded on the undistributed earnings.

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31. Earnings per share

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

	Fiscal Year ended March 31,		
	2005	**2006**	**2007**
Basic earnings per equity share weighted average number of equity shares outstanding	153,037,898	153,093,316	158,552,422
Effect of dilutive equivalent shares-stock options outstanding	81,704	310,530	704,054
Diluted earnings per equity share weighted average number of equity shares outstanding	153,119,602	153,403,846	159,256,476

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32. Employee benefit plans

As of March 31, 2007, the Company adopted the provisions of SFAS No. 158, *Employer s Accounting for Defined Benefit Pension and other Postretirement Plans* (an amendment of FASB Statements No. 87, 88, 106 and 132R) which requires the Company to recognize on the balance sheet the difference between the benefit obligations and any plan assets of its defined benefit plans. In addition, the Company is required to recognize as part of its other comprehensive income/(expense), net of taxes, gains and loss due to difference between the actuarial assumptions and actual experience (actuarial gains and losses) and any effects on prior service due to plan amendments (prior service costs and credits) that arise during the period and which are not being recognized as net periodic benefit costs. The incremental impact of applying SFAS No. 158 to the Company s balance sheet as of March 31, 2007, was to reduce our total shareholder s equity by Rs.39,036 (net of deferred taxes amounting to Rs.20,019), primarily due to the recognition of previously unrecognized actuarial losses. The following table sets forth the incremental effect of applying SFAS No. 158 to individual line items in our balance sheet as of March 31, 2007.

	Fiscal Year ended March 31, 2007		
	Before adoption of SFAS No. 158	Adjustments[a]	After adoption of SFAS No. 158
Non current assets	Rs. 340,629	Rs. (65,532)	Rs. 275,097
Current liability	2,933,077	3,026	2,936,103
Non current liability	280,005	3,451	283,456
Deferred income taxes current	537,773	20,019	557,792
Total		Rs. (39,036)	

(a) The adoption of SFAS No. 158 impacted the subtotals on the balance sheet, including, Total assets, Total current liabilities, Total liabilities and Total Stockholder s equity.

Amounts recognized in the accumulated other comprehensive income for all defined benefit plans consist of:

	As of March 31, 2007
Net actuarial loss	39,036
	Rs. 39,036

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

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32. Employee benefit plans (continued)

The following table sets out the funded status of the Gratuity Plan and the amounts recognized in the Company s financial statements:

	As of March 31,	
	2006	**2007**
Change in the benefit obligations		
Projected Benefit Obligations (PBO) at the beginning of the year	Rs. 200,039	208,036
Service cost	26,926	27,097
Interest cost	15,255	15,890
Actuarial (gain)/ loss	(14,384)	(1,151)
Benefits paid	(19,800)	(22,220)
PBO at the end of the year	Rs. 208,036	Rs. 227,652
Change in plan assets		
Fair value of plan assets at the beginning of the year	Rs. 127,122	220,270
Actual return on plan assets	11,066	16,796
Employer contributions	101,882	21,477
Benefits paid	(19,800)	(22,218)
Plan assets at the end of the year	Rs. 220,270	Rs. 236,325
Funded status	12,234	8,673
Unrecognized actuarial loss	68,560	
Unrecognized transitional obligation		
Net amount recognized	Rs. 80,794	Rs. 8,673

Amounts recognized in the statement of financial position consist of:

	As of March 31,	
	2006	**2007**
Non current asset	Rs. 85,991	Rs. 11,131
Current liability	(5,197)	(120)
Non current liability		(2,338)
Net amount recognized	Rs. 80,794	Rs. 8,673

The accumulated benefit obligation for the Gratuity Plan was Rs.112,873 and Rs.140,883 as at March 31, 2006 and 2007, respectively.

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32. Employee benefit plans (continued)

Components of net periodic benefit cost:

	Fiscal Year ended March 31,		
	2005	**2006**	**2007**
Service cost	Rs. 20,379	Rs. 26,926	Rs. 27,097
Interest cost	10,217	15,255	15,890
Expected return on plan assets	(10,468)	(9,211)	(16,193)
Amortization of transition obligation / (assets)	770	12,146	
Recognized net actuarial (gain) / loss	288	7,215	4,725
Net amount recognized	Rs. 21,186	Rs. 52,331	Rs. 31,519

Summary of the actuarial assumptions: The actuarial assumptions used in accounting for the Gratuity Plan are:
Weighted-average assumptions used to determine benefit obligations:

	As of March 31,	
	2006	**2007**
Discount rate	8.0%	9.75%
Rate of compensation increase	8% per annum for first 5 years and 6% per annum thereafter	8% to 10% per annum for first 5 years and 6% per annum thereafter.

Weighted-average assumptions used to determine net periodic benefit cost:

	Fiscal Year ended March 31,		
	2005	**2006**	**2007**
Discount rate	8.0%	8.0%	8.0%
Rate of compensation increase	7.0%	8.0% per annum for first 5 years and 6.0% per annum thereafter	8% per annum for first 5 years and 6% per annum thereafter
Expected long-term return on plan assets	7.5%	7.5%	7.5%

The expected long-term return on plan assets is based on the expectation of the average long-term rate of return expected to prevail over the next 15 to 20 years on the types of investments prescribed as per the statutory pattern of investment.

Plan assets: The Company s gratuity plan weighted-average asset allocations at March 31, 2005 and 2006, by asset category are as follows:

	Fiscal Year ended March 31,	
	2006	**2007**
Debt securities	63%	8%
Funds managed by insurers	37%	91%
Others		1%

Contributions: The Company expects to contribute Rs.10,120 to its gratuity plan during the year ending March 31, 2008.

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32. Employee benefit plans (continued)

Estimated future benefit payments: The following benefit payments are expected to be paid:

Fiscal Year ended March 31,	
2008	32,329
2009	32,493
2010	33,094
2011	35,528
2012	48,075
2012-2013 to 2016-2017	244,424

Superannuation benefits: Apart from being covered under the Gratuity Plan described above, the senior officers of the Company also participate in superannuation, a defined contribution plan administered by the LIC. The Company makes annual contributions based on a specified percentage of each covered employee s salary. The Company has no further obligations under the plan beyond its annual contributions. The Company contributed Rs.26,994, Rs.24,832 and Rs.27,965 to the superannuation plan during the years ended March 31, 2005, 2006 and 2007, respectively.

Provident fund benefits: In addition to the above benefits, all employees receive benefits from a provident fund, a defined contribution plan. Both the employee and employer each make monthly contributions to the plan each equal to 12% of the covered employee s salary. The Company has no further obligations under the plan beyond its monthly contributions. The Company contributed Rs.64,223, Rs.64,443 and Rs.75,524 to the provident fund plan during the years ended March 31, 2005, 2006 and 2007, respectively.

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32. Employee benefit plans (continued)

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

The following table sets out the funded status of the Falcon pension plan and the amounts recognized in the Company s financial statements:

	As of March 31, 2006	As of March 31, 2007
Change in the benefit obligations		
Projected Benefit Obligations (PBO) at beginning of year	Rs. 275,001	Rs. 285,939
Service cost	4,173	17,718
Interest cost	3,490	15,120
Curtailment/settlement effect		17,677
Actuarial (gain)/ loss	892	6,880
Benefits paid		(66,355)
Inflationary effect over initial balance	2,383	3,742
PBO at the end of the year	Rs. 285,939	Rs. 280,721
Change in plan assets		
Fair value of plan assets at the beginning of the year	246,173	251,254
Actual return on plan assets	2,947	51,054
Employer contributions		12,203
Benefits paid		(40,812)
Inflationary effect over initial balance	2,134	2,180
Plan assets at the end of the year	Rs. 251,254	Rs. 275,879
Funded status	(34,685)	(4,842)
Unrecognized net transition obligation / (asset)		
Unrecognized actuarial gain	(711)	
Net amount recognized	Rs. (35,396)	Rs. (4,842)

Amounts recognized in the statement of financial position consist of:

	As of March 31, 2006	As of March 31, 2007

Other liabilities non current	Rs. (35,396)		(4,842)
Net amount recognized	Rs. (35,396)	Rs.	(4,842)

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32. Employee benefit plans (continued)

Components of net periodic benefit cost:

	For the year ended March 31, 2006	For the year ended March 31, 2007
Service cost	Rs. 4,137	Rs. 16,382
Interest cost	3,460	13,979
Expected return on plan assets	(3,725)	(14,755)
Unrecognized net transition obligation / (asset)		4,169
Unrecognized net (gain) / loss		(150)
Cost price inflation index adjustment over net periodic pension cost	43	826
Net periodic pension cost adjusted by cost price inflation index	Rs. 3,915	Rs. 20,451
SFAS No. 88 cost/(income) adjusted by cost price inflation index		16,118
	Rs. 3,915	Rs. 36,569

Summary of the actuarial assumptions: The actuarial assumptions used in accounting for the Falcon pension plan are:
Weighted-average assumptions used to determine benefit obligations:

	As at March 31, 2006	As at March 31, 2007
Discount rate	5.25%	5.00%
Rate of compensation increase	0.75%	1.00%

Weighted-average assumptions used to determine net periodic benefit cost:

	For the year ended March 31, 2006	For the year ended March 31, 2007
Discount rate	5.25%	5.25%
Rate of compensation increase	2.00%	0.75%
Expected long-term return on plan assets	7.75%	6.25%
Inflation rate of fiscal year	0.87%	4.21%

Plan assets: The Company s pension plan weighted-average asset allocations, by asset category are as follows:

	For the year ended March 31, 2007
Equity	24%
Debt	76%

Estimated future benefit payments: The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Fiscal Year ended March 31,

2008	Rs. 26,628
2009	27,037
2010	23,764
2011	25,464
2012	23,748
2013 to 2018	140,385

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33. Related party transactions

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

Diana Hotels Limited for availing hotel services

AR Chlorides for availing processing services of raw materials and intermediates

Dr. Reddy s Holdings Private Limited for purchase and sale of active pharmaceutical ingredients and intermediates

Madras Diabetes Research Foundation for undertaking research on behalf of the Company

Dr. Reddy s Heritage Foundation for purchase of services

SR Enterprises for transportation services

Manava Seva Dharma Samvardhani Trust for social contribution to which the Company has made contribution.

The directors of the Company have either a significant ownership interest, controlling interest or exercise significant influence over these entities (significant interest entities).

The Company has carried out transactions with its two affiliates, Perlecan Pharma and Reddy Kunshan. These transactions are in the nature of reimbursement of research and development expenses by Perlecan Pharma, payment towards research services performed by the Company for Perlecan Pharma and the purchase of active pharmaceutical ingredients by the Company from Reddy Kunshan. The Company has also entered into transactions with employees, directors of the Company and their relatives.

One of the Company s former executives and U.S. general counsel (resigned effective July 31, 2006), is a partner of a law firm that the Company engages for provision of legal services. Legal fees paid by the Company to this law firm were Rs.468,758, Rs.466,567 and Rs.153,620 (till the date of his resignation) during the years ended March 31, 2005, 2006 and 2007, respectively.

The following is a summary of significant related party transactions:

	Fiscal Year ended March 31,		
	2005	**2006**	**2007**
Purchases from:			
Significant interest entities	Rs. 45,239	Rs. 182,870	Rs. 294,773
Affiliates	39,278	5,410	
Sales to:			
Significant interest entities	1,055	32,255	
Affiliates			139,335
Reimbursement of expenses from:			
Affiliates			372,643
Lease rental paid under cancelable operating leases to:			
Directors and their relatives	17,144	18,927	21,884

Administrative expenses paid to:			
Significant interest entities	4,649	7,401	9,227

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33. Related party transactions (continued)

The Company has the following amounts due from related parties:

	As of March 31, 2006	As of March 31, 2007
Significant interest entities	Rs. 6,084	
Directors and their relatives	4,380	4,380
Employee loans (interest free)	7,537	2,426
Affiliates	234,541	143,136
	Rs. 252,542	Rs. 149,942

The Company has the following amounts due to related parties:

	As of March 31, 2006	As of March 31, 2007
Significant interest entities	Rs. 18,958	Rs. 871
Payable towards legal fees	131,392	
Directors and their relatives	1,328	
	Rs. 151,678	Rs. 871

As of March 31, 2007, the required repayments of employee loans are given below:

Repayable in the year ending March 31:	
2008	Rs. 1,951
2009	313
2010	130
2011	32
2012	
Thereafter	
	Rs. 2,426

34. Commitments and Contingencies

Capital Commitments: As of March 31, 2006 and 2007, the Company had committed to spend approximately Rs.744,006 and Rs.1,186,049, respectively, under agreements to purchase property and equipment. The amount is net of capital advances paid in respect of such purchases.

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

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34. Commitments and Contingencies (continued)

KRRP secured a credit facility of Rs.32,000 from Citibank, N.A. (Citibank). To enhance the credit standing of KRRP the Company issued during the fiscal year ended March 31, 2006, a corporate guarantee amounting to Rs.45,000 in favor of Citibank. The guarantee is required to be renewed every year and the liability of the Company may arise in case of non-payment or non-performance of other obligations of KRRP under its credit facility agreement with Citibank. As of March 31, 2007, we believe that the fair value of such liability is not material.

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

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

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

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34. Commitments and Contingencies (continued)

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

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

In August 2006, the Company received a letter from Pharma, LLC alleging that sales of certain products were excluded by the Company from its calculation of gross revenue in computing the amount payable to Pharma, LLC. The Company, in its response, has stated that the specified products, being the authorized generic products of the partnering innovator company, are not DRLI products and therefore fall within the definition of excluded products . Accordingly, the Company has rejected Pharma LLC s claim for its share of consideration from sale of these products. Subsequently, in October, 2006, Pharma LLC instituted an Arbitration Proceeding under the Redemption Agreement. If the Company is not able to successfully defend its position, the maximum potential estimated liability towards the claim made by Pharma LLC could accelerate the payment of contingent consideration, within the overall limit of U.S.$14,000 as mentioned above.

On April 18, 2007, the Company terminated all of its Over The Counter (OTC) product agreements with Leiner Health Products, LLC (Leiner). This action was taken by the Company after receiving notice that, on March 16, 2007, Leiner had been served with a list of Inspection Observations on a Form 483 from the U.S. FDA inspectors and, in response thereto, on March 20, 2007, suspended all of its packaging, production and distribution of OTC products manufactured, packaged or tested at its facilities in the United States. Under the terminated agreements, Dr. Reddy s had provided Leiner with supplies of API to produce OTC products as well supplies of finished dose tablets, and the right to market certain OTC products under development. The Company does not believe that this termination will have any material impact on its financial position, results of operations or cash flows in any given accounting period.

In March 2007, the Eurpoean patent for Fosamax (Merck & Co. s brand name for alendronate sodium), which the Company and several other companies sell generic versions of in Germany, was reinstated in favor of Merck & Co. betapharm has filed protective writs to prevent a preliminary injunction without a hearing. As of March 31, 2007, no injunction had been granted to Merck & Co. Based on a legal evaluation, the Company continues selling its generic version of the product and believes that the Eurpoean patent reinstatement does not affect its ability to continue such sales. The Company does not believe that the patent reinstatement will have any material impact on its financial position, results of operations or cash flows in any given accounting period.

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34. Commitments and Contingencies (continued)

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

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

There are certain income-tax related legal proceedings which are pending against the Company. Potential liabilities, if any, have been adequately provided for, and the Company does not currently estimate any incremental liability in respect of any of these proceedings.

Additionally, the Company is also involved in other lawsuits, claims, investigations and proceedings, including patent and commercial matters, which arise in the ordinary course of business. However, there are no such matters pending that the Company expects to be material in relation to its financial position, or results of operations.

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35. Segment reporting and related information

a) *Segment information*

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

Formulations Revenues by therapeutic product category; Gross profit

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

Generics Gross profit;

Critical care and biotechnology Gross profit;

Drug discovery Revenues and expenses; and

Custom pharmaceutical services Gross profit.

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

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35. Segment reporting and related information (continued)

Formulations

Formulations, also referred to as finished dosages, consist of finished pharmaceutical products ready for consumption by the patient. An analysis of revenues by therapeutic category of the formulations segment is given below:

	Fiscal Year ended March 31,		
	2005	**2006**	**2007**
Gastro-intestinal	Rs. 1,740,087	Rs. 2,252,528	Rs. 3,017,439
Pain control	1,540,665	1,873,921	2,693,630
Cardiovascular	1,494,701	1,707,223	1,885,928
Anti-infectives	1,001,797	1,118,631	1,388,555
Dermatology	338,016	427,165	525,421
Others	1,526,753	2,535,664	3,049,683
	Rs. 7,642,019	Rs. 9,915,132	Rs. 12,560,656
Intersegment revenues[1]	17,702	40,426	32,755
Adjustments[2]	163,192	(29,603)	(274,503)
Total revenues	Rs. 7,822,913	Rs. 9,925,955	Rs. 12,318,908
Cost of revenues	2,280,473	3,024,070	3,386,956
Intersegment cost of revenues[3]	259,727	242,080	336,720
Adjustments[2]	(47,397)	(182,012)	(72,172)
	Rs. 2,492,803	Rs. 3,084,138	Rs. 3,651,504
Gross profit	5,119,521	6,689,408	8,869,735
Adjustments[2]	210,589	152,409	(202,331)
	Rs. 5,330,110	Rs. 6,841,817	Rs. 8,667,404

(1) Intersegment revenues is comprised of transfers to the active pharmaceutical ingredients and intermediates segment and is accounted for at cost to the

transferring segment.

(2) The adjustments represent reconciling items from standalone local GAAP financial information to conform to the consolidated U.S. GAAP segment information. Such adjustments primarily relate to consolidation and other U.S. GAAP adjustments.

(3) Intersegment cost of revenues is comprised of transfers from the active pharmaceutical ingredients and intermediates segment to formulations and is accounted for at cost to the transferring segment.

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35. Segment reporting and related information (continued)

Active pharmaceutical ingredients and intermediates

Active pharmaceutical ingredients and intermediates, also known as active pharmaceutical products or bulk drugs, are the principal ingredients for formulations. Active pharmaceutical ingredients and intermediates become formulations when the dosage is fixed in a form ready for human consumption such as a tablet, capsule or liquid using additional inactive ingredients.

An analysis of gross profit for the segment is given below.

	Fiscal Year ended March 31,		
	2005	**2006**	**2007**
Revenues from external customers	Rs. 5,946,765	Rs. 7,448,681	Rs. 11,131,357
Intersegment revenues[1]	742,294	1,064,816	1,764,589
Adjustments[2]	255,469	(275,440)	(1,069,145)
Total revenues	Rs. 6,944,528	Rs. 8,238,057	Rs. 11,826,801
Cost of revenues	Rs. 4,499,140	5,462,935	6,673,037
Intersegment cost of revenues[3]	17,702	40,426	32,755
Adjustments[2]	496,713	413,239	536,480
	Rs. 5,013,555	Rs. 5,916,600	Rs. 7,242,272
Gross profit	Rs. 2,172,217	Rs. 3,010,135	6,190,154
Adjustments[2]	(241,244)	(688,679)	(1,605,625)
	Rs. 1,930,973	Rs. 2,321,456	Rs. 4,584,529

(1) Intersegment revenues is comprised of transfers to formulations, generics and custom pharmaceutical services and is accounted for at cost to the transferring segment.

(2) The adjustments represent

reconciling items from standalone local GAAP financial information to conform to the consolidated U.S. GAAP segment information. Such adjustments primarily relate to consolidation and other U.S. GAAP adjustments

(3) Intersegment cost of revenues is comprised of transfers from the formulations segment to active pharmaceutical ingredients and intermediates segment and is accounted for at cost to the transferring segment.

An analysis of revenue by geography is given below:

	Fiscal Year ended March 31,		
	2005	**2006**	**2007**
North America	Rs. 1,848,963	Rs. 1,654,953	Rs. 2,029,603
India	1,988,134	2,302,434	2,238,763
Europe	1,091,190	1,420,930	2,089,426
Others	2,032,258	2,865,743	5,632,724
	6,960,545	8,244,060	Rs. 11,990,516
Adjustments[1]	(16,017)	(6,003)	(163,715)
	Rs. 6,944,528	Rs. 8,238,057	Rs. 11,826,801

(1) The adjustments represent reconciling

items from standalone local GAAP financial information to conform to the consolidated U.S. GAAP segment information. Such adjustments primarily relate to consolidation and other U.S. GAAP adjustments

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35. Segment reporting and related information (continued)

An analysis of revenues by key products is given below:

	Fiscal Year ended March 31,		
	2005	**2006**	**2007**
Sertraline Hydrochloride	Rs. 138,158	Rs. 494,101	Rs. 2,461,494
Rabeprazole Sodium	7,448	18,379	875,189
Ramipril	783,362	642,538	760,661
Ciprofloxacin Hydrochloride	619,112	778,458	739,625
Finasteride	58,393	98,339	580,775
Naproxen Sodium	470,044	380,409	521,214
Terbinafine HCl	194,482	537,155	483,896
Ranitidine HCl Form 2	282,240	404,022	420,334
Naproxen	229,553	374,997	408,004
Clopidogrel	79,586	139,941	384,238
Ibuprofen	460,490	502,263	328,927
Montelukast	52,626	241,090	285,218
Losartan potassium	180,528	172,682	234,432
Nizatidine	216,757	160,857	223,593
Atorvastatin	252,466	321,139	161,872
Others	2,919,283	2,971,687	2,957,329
Total	Rs. 6,944,528	Rs. 8,238,057	Rs. 11,826,801

Generics

Generics are generic finished dosages with therapeutic equivalence to branded formulations. The Company entered the global generics market during the fiscal year ended March 31, 2001 with the export of ranitidine 75mg and oxaprozin to the United States. The Company s acquisition of betapharm during the year ended March 31, 2006 has been assigned to this segment.

An analysis of gross profit for the segment is given below.

	Fiscal Year ended March 31,		
	2005	**2006**	**2007**
Revenues	Rs. 3,577,421	Rs. 4,055,764	Rs. 33,224,185
Less:			
Cost of revenues	1,222,401	1,464,479	17,002,630
Intersegment cost of revenues[1]	397,969	704,321	1,095,922
	1,620,370	2,168,800	18,098,552
Gross Profit	Rs. 1,957,051	Rs. 1,886,964	Rs. 15,125,633

(1) Intersegment cost of revenues comprises

transfers from the active pharmaceutical ingredients and intermediates segment to the generics segment and is accounted for at cost to the transferring segment.

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35. Segment reporting and related information (continued)

Critical care and biotechnology

Diagnostic pharmaceuticals and equipment and specialist products are produced and marketed by the Company primarily for anti-cancer and critical care. An analysis of gross profit for the diagnostics, critical care and biotechnology segment is given below:

	Fiscal Year ended March 31,		
	2005	**2006**	**2007**
Revenues	Rs. 527,108	Rs. 691,074	Rs. 823,857
Cost of revenues	176,534	235,869	272,015
Gross profit	Rs. 350,574	Rs. 455,205	Rs. 551,842

Drug discovery

The Company is involved in drug discovery through the research facilities located in the United States and India. The Company commercializes drugs discovered with other products and also licenses these discoveries to other companies. An analysis of the revenues and expenses of the drug discovery segment is given below:

	Fiscal Year ended March 31,		
	2005	**2006**	**2007**
Revenues	Rs. 288 ,382		Rs. 136,783
Cost of revenues			121,498
Gross profit	Rs. 288,382		Rs. 15,285
Research and development expenses	Rs. 868,992	Rs. 814,485	Rs. 774,614

Custom pharmaceutical services (CPS)

Custom pharmaceutical services operations relate to the manufacture and sale of active pharmaceutical ingredients and steroids in accordance with the customer s requirements. The Company s acquisition of Falcon, Roche s manufacturing facility in Mexico, during the year ended March 31, 2006 has been assigned to this segment.

	Fiscal Year ended March 31,		
	2005	**2006**	**2007**
Revenues	Rs311,574	Rs. 1,326,828	Rs. 6,599,763
Less:			
Cost of revenues		881,019	4,330,594
Intersegment cost of revenues[1]	82,559	118,415	331,948
	82,559	999,434	4,662,542
Gross Profit	Rs. 229,015	Rs. 327,394	Rs. 1,937,221

(1)

Intersegment cost of revenues is comprised of transfers from the active pharmaceutical ingredients and intermediates segment to the custom pharmaceutical services and is accounted for at cost to the transferring segment

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35. Segment reporting and related information (continued)

a) Reconciliation of segment information to entity total

	For the year ended March 31, 2005		For the year ended March 31, 2006		For the year ended March 31, 2007	
	Revenues	Gross profit	Revenues	Gross profit	Revenues	Gross profit
Formulations	Rs. 7,822,913	Rs. 5,330,110	Rs. 9,925,955	Rs. 6,841,817	Rs. 12,318,908	Rs. 8,667,404
Active pharmaceutical ingredients and intermediates	6,944,528	1,930,973	8,238,057	2,321,456	11,826,801	4,584,529
Generics	3,577,421	1,957,051	4,055,764	1,886,964	33,224,185	15,125,633
Critical care and biotechnology	527,108	350,574	691,074	455,205	823,857	551,842
Drug discovery	288,382	288,382			136,783	15,285
Custom pharmaceutical services	311,573	229,015	1,326,828	327,394	6,599,763	1,937,221
Others	47,441	47,441	29,369	16,798	164,795	(6,361)
	Rs. 19,519,366	Rs. 10,133,546	Rs. 24,267,047	Rs. 11,849,634	Rs. 65,095,092	Rs. 30,875,553

b) Analysis of revenue by geography

The Company s business is organized into five key geographic segments. Revenues are attributable to individual geographic segments based on the location of the customer.

	Fiscal Year ended March 31,		
	2005	2006	2007
India	Rs. 6,693,042	Rs. 8,272,468	Rs. 9,178,590
North America	4,349,191	3,983,860	28,336,547
Russia and other countries of the former Soviet Union	2,782,171	3,559,477	4,751,981
Europe	2,868,233	4,326,366	14,839,117
Others	2,826,729	4,124,876	7,988,857
	Rs. 19,519,366	Rs. 24,267,047	Rs. 65,095,092

c) Analysis of property, plant and equipment by geography

Property, plant and equipment (net) attributed to individual geographic segments are given below based on location respective property, plant and equipment:

	As of March 31,	
	2006	2007
India	Rs. 7,063,595	Rs. 10,061,138
North America	1,511,068	1,701,157
Russia and other countries of the former Soviet Union	30,118	26,618
Europe	468,314	629,330

Others	13,236	9,555
	Rs. 9,086,331	Rs. 12,427,798

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36. Subsequent events

Subsequent to the year ended March 31, 2007, betapharm and Salutas agreed to the firm purchase quantities under its long-term supply contract, which resulted in a loss on firm purchase commitment on certain products amounting to Rs.268,227. This loss was recorded in the quarter ended June 30, 2007.

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Item 19. EXHIBITS

Exhibit Number	Description of Exhibits
1.1.*/*** /*****	Memorandum and Articles of Association of the Registrant dated February 4, 1984.
1.2.*/***	Certificate of Incorporation of the Registrant dated February 24, 1984.
1.3.*/***	Amended Certificate of Incorporation of the Registrant dated December 6, 1985.
2.1.*	Form of Deposit Agreement, including the form of American Depositary Receipt, among Registrant, Morgan Guaranty Trust Company as Depositary, and holders from time to time of American Depositary Receipts Issued there under, including the form of American Depositary.
4.1.*	Agreement by and between Dr. Reddy s Laboratories Limited and Dr. Reddy s Research Foundation regarding the undertaking of research dated February 27, 1997.
4.2.**	Dr. Reddy s Laboratories Limited Employee Stock Option Scheme, 2002.
4.3****	Sale and Purchase Agreement Regarding the Entire Share Capital of Beta Holding GmbH dated February 15th/16th 2006
8.	List of subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm
99.1	Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
99.2	Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
99.3	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.4	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Previously filed on March 26, 2001 with the SEC along with Form F-1

** Previously filed on October 31, 2002 with the SEC along with Form S-8.

*** Previously filed with the Company s Form 20-F for the fiscal year ended March 31, 2003.

**** Portions of exhibit have been omitted and filed separately with the SEC pursuant to a request for confidential treatment.

***** Previously filed with the Company s Form 20-F for the fiscal year ended March 31, 2006

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

For Dr. Reddy s Laboratories Limited,

By: /s/ G.V. Prasad
G.V. Prasad
Executive Vice Chairman and CEO

For Dr. Reddy s Laboratories Limited,

By: /s/ Saumen Chakraborty
Saumen Chakraborty
Chief Financial Officer

Hyderabad, India
September 25, 2007