DR REDDYS LABORATORIES LTD
Form 20-F
September 22, 2010

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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, 2010

OR

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

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 _____
For the transition period from _____ to _____

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)
Umang Vohra, *Chief Financial Officer,* +91-40-2373 1946, umangvohra@drreddys.com
7-1-27, Ameerpet, Hyderabad, Andhra Pradesh, India
(Name, telephone, e-mail and/or facsimile number and address of company contact person)
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*	

* **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.

168,845,385 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.

Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No þ

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o

(Do not check if a smaller reporting company)

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP o International Financial Reporting Standards as issued by the International Accounting Standards Board þ Other o

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 o

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 United States and references to Rs. or rupees or Indian rupees are to the legal currency of India. Our financia statements are presented in Indian rupees and translated into U.S. dollars and are prepared in accordance with International Financial Reporting Standards, or IFRS , as issued by the International Accounting Standards Board, or IASB . References to Indian GAAP are to Indian Generally Accepted Accounting Principles and references to U.S. GAAP are to United States 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 Dr. Reddy s or the Company shall mean Dr. Reddy s Laboratories Limited and its subsidiaries. Dr. Reddy s 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 31, 2010 for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York, which was Rs.44.95 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 17, 2010 that rate was Rs.45.88 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*

You should read the selected consolidated financial data below in conjunction with our consolidated financial statements and the related notes, as well as the section titled Operating and Financial Review and Prospects, all of which are included elsewhere in this Annual Report on Form 20-F. The selected consolidated statements of income for the three years ended March 31, 2010, 2009 and 2008 and the selected consolidated statement of financial position data as of March 31, 2010 and 2009 have been prepared and presented in accordance with IFRS as issued by the IASB, and have been derived from our audited consolidated financial statements and related notes included elsewhere herein. The selected consolidated financial data below has been presented for the three most recent fiscal years. Historical results are not necessarily indicative of future results.

Selected IFRS financial data for the years ended March 31, 2007 and 2006 have not been included in this Annual Report on Form 20-F because IFRS financial statements for such periods have not previously been prepared and could not be without unreasonable effort and expense. We changed our basis of accounting to IFRS during the year ended March 31, 2009 and, in connection therewith, our consolidated financial statements for the year ended March 31, 2008 were restated to conform with IFRS. Prior to adoption of IFRS, we prepared financial statements in accordance with accounting principles generally accepted in the United States of America for purposes of our SEC reporting.

Income Statement Data

	For the Year Ended March 31,			
	2010	**2010**	**2009**	**2008**
	(Rs. in millions, U.S.$ in millions except share and per share data)			
	Convenience translation into U.S.$			
Revenues	U.S.$ 1,563	Rs. 70,277	Rs. 69,441	Rs. 50,006
Cost of revenues	755	33,937	32,941	24,598
Gross profit	**808**	**36,340**	**36,500**	**25,408**
Selling, general and administrative expenses	501	22,505	21,020	16,835
Research and development expenses	84	3,793	4,037	3,533
Impairment loss on other intangible assets	77	3,456	3,167	3,011
Impairment loss on goodwill	115	5,147	10,856	90
Other (income)/expense, net	(13)	(569)	254	(402)
Results from operating activities	**45**	**2,008**	**(2,834)**	**2,341**
Finance (expense)/income, net		(3)	(1,186)	521
Share of profit of equity accounted investees, net of income tax	1	48	24	2
Profit/(loss) before income tax	**46**	**2,053**	**(3,996)**	**2,864**
Income tax (expense)/benefit	(22)	(985)	(1,172)	972

Profit/(loss) for the year	**U.S.$**	**24**	**Rs.**	**1,068**	**Rs.**	**(5,168)**	**Rs.**	**3,836**
Earnings/(loss) per share								
Basic	U.S.$	0.14	Rs.	6.33	Rs.	(30.69)	Rs.	22.88
Diluted	U.S.$	0.14	Rs.	6.30	Rs.	(30.69)	Rs.	22.80
Weighted average number of equity shares used in computing earnings/(loss) per equity share*								
Basic		168,706,977		168,706,977		168,349,139		168,075,840
Diluted		169,615,943		169,615,943		168,349,139		168,690,774
Cash dividend per equity share (Rs.)**				6.25		3.75		3.75

* Each ADR represents one equity share.

** Excludes corporate dividend tax

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Statement of financial position Data

		As of March 31,		
	2010	2010		2009
	(Rs. in millions, U.S.$ in millions)			
	Convenience translation into U.S.$			
Cash and cash equivalents	U.S.$ 146	Rs. 6,584	Rs.	5,596
Total assets	1,787	80,330		83,792
Total long term debt, excluding current portion	120	5,385		10,132
Total equity	U.S.$ 955	Rs. 42,915	Rs.	42,045

Convenience translation

For the convenience of the reader, our consolidated financial statements as of March 31, 2010 have been translated into U.S. dollars at the noon buying rate in New York City on March 31, 2010 for cable transfers in Indian rupees, as certified for customs purposes by the Federal Reserve Bank of New York, of U.S.$1.00 = Rs.44.95. 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.

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 noon buying rate in the City of New York on business days 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.

Year Ended March 31,	Period End	Average	High	Low
2008	40.02	40.00	43.05	38.48
2009	50.87	46.32	51.96	39.73
2010	44.95	47.36	50.48	44.94

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

Month	High	Low
October 2009	47.72	46.00
November 2009	47.37	46.06
December 2009	46.85	46.00
January 2010	46.40	45.35
February 2010	46.79	45.97
March 2010	46.01	44.94

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On September 17, 2010, the noon buying rate in the City of New York was Rs.45.88 per U.S. dollar.

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 Pharmaceutical Services and Active Ingredients, Global Generics and Proprietary Products segments. We must develop, test and manufacture generic products as well as prove that our generic products are bio-equivalent or bio-similar to their branded counterparts either directly or in partnership with contract research organizations. 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 proprietary 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. Our approved products may not achieve expected levels of market acceptance.

To develop our product 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, and to introduce them on a timely basis in relation to competitor product introductions.

Our dependence on research and development makes it highly important that we recruit and retain high quality researchers, development specialists and other science and technology experts. 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 fail to comply fully with government regulations or to maintain continuing regulatory oversight 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.

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Also, governmental authorities, including the U.S. Food and Drug Administration (U.S. FDA), heavily regulate the manufacturing 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 our production facilities, which in turn could lead to product shortages. Failure to comply fully with such regulations could also lead to a delay in the approval of our new products.

The regulatory requirements are still evolving in many developing markets where we sell or manufacture products, including our bio-similar products. In these markets, the regulatory requirements and the policies and opinions of regulators may at times be unclear, inconsistent or arbitrary due to absence of adequate precedents or for other reasons. As a result, there is increased risk of our inadvertent non-compliance with such regulations, which could lead to government-enforced shutdowns and other sanctions, as well as the withholding or delay of regulatory approvals for new products.

Risks from operations in certain countries susceptible to political or economic instability.

We are a global pharmaceutical company with worldwide operations. Although a significant proportion of our sales are in North America and Western Europe, we expect to derive an increasing portion of our sales and future growth from other regions, such as Latin America, Russia and other countries of the former Soviet Union, Central Europe and Eastern Europe, all of which may be more susceptible to political or economic instability.

We monitor significant political, legal and economic developments in these regions and attempt to mitigate our exposure where possible. However, mitigation is not always possible, and our international operations could be adversely affected by political, legal and economic developments, such as changes in capital and exchange controls; expropriation and other restrictive government actions; intellectual property protection and remedy laws; trade regulations; procedures and actions affecting approval, production, pricing and marketing of, reimbursement for and access to our products; and intergovernmental disputes, including embargoes and/or military hostilities.

For example, in recent years Russia and other countries of the former Soviet Union were adversely affected by the global economic crisis and began to experience economic instability characterized by, among other things, liquidity issues and local currency devaluations against the U.S. dollar. We instituted strict credit controls and receivables monitoring mechanisms to mitigate our collection risks and, as a result, we managed to avoid any write-offs. However, in future periods we may be unable to successfully mitigate these or other risks of political, legal and economic instability, and our international operations could be adversely affected.

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 and the clinical trials that we conduct, 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 at an acceptable price. 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.

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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 in the United States 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 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.

We are constantly striving to build efficiency in our internal processes and cost structures and to build decisive competitive advantages to face increasing competition on product price and market share. However, these advantages and the long term beneficial impact from such initiatives may not sustain in future.

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.

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.

Our success will depend in part on the extent to which government and health administration authorities, private health insurers and other third-party payors will pay for our products. Increasing expenditures for health care has 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 by limiting both coverage and the level of reimbursement for new therapeutic products. 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.

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In the United States, numerous proposals that would affect changes in the United States health care system have been introduced 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 March 2010, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act (collectively, the PPACA), were signed into law. The PPACA is one of the most significant healthcare reform measures in the United States in decades, and is expected to significantly impact the U.S. pharmaceutical industry. We may see an increase in revenues by virtue of the PPACA s anticipated extension of health insurance to tens of millions of previously uninsured Americans and the prohibitions on denials of health insurance coverage due to pre-existing diseases and on lifetime value limits on insurance policy coverages. However, the PPACA contains various provisions which could adversely affect our business, including the following:

- The PPACA imposes on pharmaceutical manufacturers a variety of additional rebates, discounts and fees. Among other things, the PPACA includes annual, non-deductible fees that go into effect in 2011 for entities that manufacture or import certain prescription drugs and biologics. This fee will be calculated based upon each organization s percentage share of total branded prescription drug sales to U.S. government programs (such as Medicare, Medicaid and Veterans Affairs and Public Health Service discount programs), and authorized generic products are treated as branded products. In addition, the PPACA changes the computations used to determine Medicaid rebates owed by manufacturers under the Medicaid Drug Rebate Program by redefining the average manufacturer s price (AMP), effective October 1, 2010, and by using 23.1% instead of 15% of AMP for most branded drugs and 13% instead of 11% of AMP for generic drugs, effective January 1, 2010. The PPACA also increases the number of healthcare entities eligible for discounts under the Public Health Service pharmaceutical pricing program.
- The PPACA has pro-generic provisions that could increase competition in the generic pharmaceutical industry and therefore adversely impact our selling prices or costs and reduce our profit margins. Among other things, the PPACA creates an abbreviated pathway to U.S. FDA approval of biosimilar biological products and allows the first interchangeable bio-similar biological product 18 months of exclusivity, which could increase competition for our bio-generics business. Conversely, the PPACA has some anti-generic provisions that could adversely affect our bio-generics business, including provisions granting the innovator of a biological drug product 12 years of exclusive use before generic drugs can be approved based on being biosimilar.
- The PPACA makes several important changes to the federal anti-kickback statute, false claims laws, and health care fraud statutes that may make it easier for the government or whistleblowers to pursue such fraud and abuse violations. In addition, the PPACA increases penalties for fraud and abuse violations. If our past, present or future operations are found to be in violation of any of the laws described above or other similar governmental regulations to which we are subject, we may be subject to the applicable penalty associated with the violation which could adversely affect our ability to operate our business and our financial results.
- To further facilitate the government s efforts to coordinate and develop comparative clinical effectiveness research, the PPACA establishes a new Patient-Centered Outcomes Research Institute to oversee and identify priorities in such research. The manner in which the comparative research results would be used by third-party payors is uncertain.

The impact of the PPACA will be seen as it is implemented, by promulgation of regulations and other administrative and judicial actions. We are in the process of evaluating the impact of the PPACA and how it may affect our financial condition, results of operations and cash flows.

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, impacting our revenues, and may further decline in the future. Furthermore, the shift to a tender (i.e., competitive bidding) based supply model in Germany may further reduce prices for our products and may impact our market opportunities in that country. 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. In our bio-generics business, due to the intrinsic nature of biologics, our bio-similarity claims can always be contested by our competitors, the innovator company and/or the applicable regulators.

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 proprietary 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 proprietary 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, the generic manufacturer who won exclusivity relating to the specific product usually is the only company marketing 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 (the Medicare Prescription Drug Act) amended the Hatch-Waxman Act and provides that the 180-day market exclusivity period is triggered by the commercial marketing of the product, as opposed to the old rule under which 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 with respect to triggering dates and shared exclusivities may also prevent us from fully utilizing the exclusivity periods.

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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 an abbreviated 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 affect 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 litigation, 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 fexofenadine, the generic version of Allegra®, despite the fact that litigation with the company that holds the patents for and sells this branded product is still ongoing. This is the only product that we have launched in the United States prior to the resolution of outstanding patent litigation. In the European Union, we also have generic launches that involve ongoing patent litigation, the outcome of which could adversely affect our business or profitability. During the year ended March 31, 2009, we incurred damages of approximately Rs.916 million as a result of the German Federal Court of Justice upholding the validity of an olanzapine patent held by Eli Lilly. In Canada, we continue to sell olanzapine tablets (the generic version of Eli Lilly s Zyprexa® tablets) through a partnership with Pharmascience, Inc., despite the fact that Pharmascience has agreed to pay damages if Eli Lilly is successful in its olanzapine patent litigation against Novopharm, and our partnership arrangement with Pharmascience would require us to share a portion of any such damages obligation realized by Pharmascience.

Furthermore, there may be risks involved in entering into in-licensing arrangements for products, which are often conditioned upon the licensee s sharing in the patent-related risks. For example, in the case of our brand Oxycodon beta in Germany, our supplier, Cimex Pharma AG, required us to enter into a cost sharing agreement under which we will pay up to 20% of the losses resulting from any innovator damage claims.

For business reasons, we continue to examine such product opportunities (i.e., involving non-expired patents) going forward and this could result in patent litigation, the outcomes of which may impact our profitability.

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, 2010, our products were marketed in numerous countries. In large overseas markets, our products are usually marketed through our subsidiaries or 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.

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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, it may severely hamper our ability to supply our customers and we 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, 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 in recent years. If the economy of our key markets (including but not limited to the United States, the United Kingdom, Germany and, among the emerging markets, India and Russia) is affected by such acts, our business and results of operations may be adversely affected as a consequence.

In recent years, Asia experienced outbreaks of avian influenza and Severe Acute Respiratory Syndrome, or SARS . In addition, a rising death toll in Mexico from a new strain of Swine Flu led the World Health Organization to declare a public health emergency of international concern. If the economy of our key 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. 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.

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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.
- The initial rationale for the acquisition may not remain viable due to a variety of factors, including unforeseen regulatory changes and market dynamics after the acquisition, and this may result in a significant delay and/or reduction in the profitability of the acquisition.
- 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.
- 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 equity shares or other securities, equity interests in us held by holders of the equity shares may be significantly diluted and may result in a dilution of earnings per equity share. 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 decrease in our net income and a consequential reduction in our earnings per equity share.

Our principal shareholders have significant control over 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 and members of their immediate families, in the aggregate, beneficially owned 25.8% of our issued shares as at March 31, 2010. 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 significant 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.

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If there is delay and/or failure in supplies of materials, services and finished goods from third parties or failure of finished goods from our key manufacturing sites, 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, and in some cases there could be a single source of supply. For instance, we rely on third party manufacturers for a part of the 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, 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 Global Generics segment, which could result in a loss of production capacity for this segment. In addition, this could result in a conflict between the API needs of our Global Generics segment and the needs of customers of our Pharmaceutical Services and Active Ingredients segment, some of whom are also our competitors in the Global Generics segment. In either case, we could potentially lose business from adversely affected customers and we could be subjected to lawsuits.

Our key generics manufacturing sites also may have capacity constraints and, at times, we may not be able to generate sufficient supplies of finished goods, which may adversely affect our business or results of operations. Moreover, we may continue to be dependent on vendors, strategic partners and alliance partners for supplies of some of our existing products and new generic launches. Any unanticipated capacity or supply related constraints affecting such vendors, strategic partners or alliance partners can adversely affect our business or results of operations.

If, as we expand into new international markets, we may 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 in certain countries through subsidiaries and equity investees or through supply and marketing arrangements with our alliance partners. In those countries where we have limited experience in operating subsidiaries 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 certain 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, or if we fail to manage our alliances, 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, Switzerland, Mexico and Russia and each has significant local operations. A significant portion of our revenues are in currencies other than the Indian rupee, 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 into 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 of any executive officer s or key employee s departure which has had, or planned departure which is expected to have, any material impact on our operations. 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.

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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 acquires any of our customers or suppliers, we may lose business from the customer or lose a supplier of a critical raw material.

We have grown at a very rapid pace. Our inability to properly manage or support this growth may have a material adverse effect on our business.

We have grown very rapidly over the past few years, including growth through our acquisitions of companies and brands. This growth has significantly increased demands on our processes, systems and people. We expect to make additional investments in personnel, systems and internal control processes to help manage our growth. Attracting, retaining and motivating key employees in various departments and locations to support our growth is critical to our business, and competition for these people can be intense. Furthermore, to facilitate our growth, we are carrying out reorganizations to improve our focus on delivery, to build decisive competitive advantages or/and to build sustainable cost structures. There is also an increasing need to manage information and asset related security. If we are unable to hire and retain qualified employees, or if we do not invest in systems and processes to manage and support our rapid growth, the failure to do so may have a material adverse effect on our business, financial condition and results of operations.

Fluctuations in our quarterly revenues, operating results and cash flows may adversely affect the trading price of our shares and ADSs.

Our quarterly revenues, operating results and cash flows have fluctuated significantly in the past and may fluctuate substantially from quarter to quarter in the future. Such fluctuations may result in volatility in the price of our equity shares and our ADSs. Our quarterly revenues, operating results and cash flows may fluctuate as a result of a variety of factors, including but not limited to:

- changes in demand for our products;
- the impact of seasons (weather severity, length and timing) on the price and availability of raw materials which we depend on;
- the timing of regulatory approvals and of launches of new products by us and our competitors, particularly where we obtain the 180-day period of market exclusivity in the United States provided under the Hatch-Waxman Act of 1984;
- changes in our pricing policies or those of our competitors;
- the magnitude and timing of our research and development investments;
- changes in the level of inventories maintained by our customers;
- the geographical mix of our sales and currency exchange rate fluctuations;
- adverse market events leading to impairment of any of our assets; and
- timing of our retailers promotional programs.

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Due to all of the foregoing factors, our revenues, operating results and cash flows are difficult to predict and may not meet the expectations of market analysts and investors. In such an event, the trading price of our shares and ADSs may be materially adversely affected.

Significant disruptions of information technology systems could adversely affect our business.

Our business is dependent upon increasingly complex and interdependent information technology systems, including Internet-based systems, to support business processes as well as internal and external communications. Any significant breakdown or interruption of these systems, whether due to computer viruses or other causes, may result in the loss of key information and/or disruption of production and business processes, which could materially and adversely affect our business.

A relatively small group of products may represent a significant portion of our net revenues, gross profit or net earnings from time to time.

Sales of a limited number of products may represent a significant portion of our net revenues, gross profit and net earnings. If the volume or pricing of our largest selling products declines in the future, our business, financial position and results of operations could be materially adversely affected.

If our intercompany arrangements are challenged and determined to be inappropriate, our tax liabilities could increase.

We have potential tax exposures resulting from the varying application of statutes, regulations and interpretations, including exposures with respect to manufacturing, research and development, marketing, sales and distribution functions. Although our arrangements are based on accepted tax standards, tax authorities in various jurisdictions may disagree with and subsequently challenge the amount of profits taxed in such jurisdictions, which may increase our tax liabilities and could have a material adverse effect on the results of our operations.

We enter into various agreements in the normal course of business which periodically incorporate provisions whereby we indemnify the other party to the agreement.

In the normal course of business, we periodically enter into agreements with vendors, customers, alliance partners, innovators and others which incorporate indemnification provisions. Our indemnification obligations under such agreements may be unlimited in duration and amount. We maintain insurance coverage which we believe will effectively mitigate our obligations under certain of these indemnification provisions (for example, in the case of outsourced clinical trials). However, should our obligations under an indemnification provision exceed our coverage or should coverage be denied, it could have a material adverse impact on our business, financial position and results of operations.

Current economic conditions may adversely affect our industry, financial position and results of operations.

The global economy is currently undergoing a period of unprecedented volatility, and the future economic environment may continue to be less favorable than that of recent years. Reduced consumer spending, or shifting concentrations of payors and their preferences, may force our competitors and us to reduce prices. We have exposure to many different industries and counterparties, including our partners under our alliance, research and promotional services agreements, suppliers of raw materials, drug wholesalers and other customers, who may be unstable or may become unstable in the current economic environment.

Significant changes and volatility in the consumer environment and in the competitive landscape may make it increasingly difficult for us to predict our future revenues and earnings.

We are subject to the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws, which impose restrictions and may carry substantial penalties.

The U.S. Foreign Corrupt Practices Act and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to officials for the purpose of obtaining or retaining business. These laws may require not only accurate books and records, but also sufficient controls, policies and processes to ensure business is conducted without the influence of bribery and corruption. Our policies mandate compliance with these anti-bribery laws, which often carry substantial penalties. Given the high level of complexity of these laws, however, there is a risk that some provisions may be inadvertently breached, for example through fraudulent or negligent behavior of individual employees, our failure to comply with certain formal documentation requirements or otherwise. Any violation of these laws or allegations of such violations, whether or not merited, could have a material adverse effect on our reputation and could cause the trading price of our ordinary shares and ADSs to

decline.

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Finally, we operate in certain jurisdictions that have experienced governmental corruption to some degree and, in some circumstances, anti-bribery laws may conflict with some local customs and practices. As a result of our policy to comply with the U.S. Foreign Corrupt Practices Act and similar anti-bribery laws, we may be at a competitive disadvantage to competitors that are not subject to, or do not comply with, such laws.

Certain natural disasters, such as drought, floods, earthquakes or volcanic eruptions, could adversely affect our production operations or result in disruptions in distribution channels or supply chains, and cause our revenues to decline.

If flooding, droughts, earthquakes, volcanic eruption or other natural disaster were to directly damage, destroy or disrupt our manufacturing facilities, it could disrupt our operations, delay new production and shipments of existing inventory or result in costly repairs, replacements or other costs, all of which would negatively impact our business. 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 of India 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. Even if our manufacturing facilities are not directly damaged, a large natural disaster may result in disruptions in distribution channels or supply chains. The impact of such occurrences depends on the specific geographic circumstances but could be significant. There is increasing concern that climate change is occurring and may have dramatic effects on human activity without aggressive remediation steps. A modest change in temperature may cause a rising number of natural disasters. We cannot predict the economic impact, if any, of natural disasters or climate change.

RISKS RELATING TO INVESTMENTS IN INDIAN COMPANIES

We are an Indian company. Our headquarters are located in India, a substantial part of our operations are conducted in India and a significant part of our infrastructure and other assets are located in India. In addition, a portion of our total revenues for the year ended March 31, 2010 continued to be 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.

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. For example, Mumbai, India s commercial capital, was the target of serial railway bombings in July 2006 as well as the recent 26/11 attacks on November 26, 2008. Hyderabad, the city in which we are headquartered, was also subjected to terrorist acts in May and August 2007. In May 2008, the city of Jaipur in the state of Rajasthan, India was subjected to a series of co-ordinate bombings. If such disturbances continue or are exacerbated, our operational, sales and marketing activities may be adversely affected.

During the year ended March 31, 2010, the state of Andhra Pradesh, where our headquarters is located, experienced political turbulence relating to a separatist movement seeking to bifurcate the existing state of Andhra Pradesh into two separate states of Telangana and Andhra . Due to civil disturbances and Bandhs (i.e., political protests in the form of worker strikes) called for, several productive days have been lost from forced or precautionary closures of our production units and offices. The continuing uncertainty is impacting the political and economic sentiment of potential investment decisions by all companies in the state.

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In addition, on July 5, 2010 transportation and businesses across India were severely disrupted by a dawn-to-dusk strike called for by opposition parties to protest against the Indian government s decision to cut subsidies on fuel. There was a total shutdown in opposition-ruled states, although business was mostly normal in regions ruled by the Congress party that also heads the central government. The Confederation of Indian Industry estimated that the strike cost the Indian economy approximately $650 million. Our operations are concentrated in the regions which were largely unaffected by the strike, and were therefore not materially impacted. However, if there are further strikes, political protests or civil unrest, our business and results of operations may be adversely affected as a consequence.

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.

Due to various macro-economic factors, the rate of inflation has recently increased in India. According to the economic report 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 9.90% for the year ended March 31, 2010 (as compared to 0.26% for the year ended March 31, 2009). This 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.

Stringent labor laws may adversely affect our ability to have flexible human resource policies; labor union problems could negatively affect our production capacity and overall profitability.

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. Approximately 8% 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.

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, research and development spending and transfer pricing, may increase our tax liability and thus adversely affect our financial results.

ITEM 4. INFORMATION ON THE COMPANY

4.A. *History and development of the 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 2009, we entered into an agreement with Natco Pharma Ltd. (Natco) for the development, manufacturing and supply of a portfolio of value added generic oncology drugs. The agreement provides for us and Natco to jointly develop these products for registration and global commercialization in various markets, including the regulated markets of the United States and the European Union. Under this agreement, Natco is required to manufacture and supply the products to us on an exclusive basis.

In May 2009, we announced the acceptance of our three Investigational New Drug (IND) filings by the U.S. FDA. The first human subjects were successfully treated in a Phase I study with DRL 17822, a selective inhibitor of cholesterylester transfer protein (or CETP), for the treatment of dyslipidemia, atherosclerosis and associated cardiovascular diseases. The compound shows potent elevation in high-density lipoprotein (or HDL) cholesterol and reduction of atherosclerotic plaques in animals, and has a clean safety profile in preclinical studies. The two other INDs are for the treatment of chronic obstructive pulmonary disease (or COPD) and dyslipidemia.

In June 2009, we entered into a partnership with GlaxoSmithKline plc (GSK) to develop and market select products across emerging markets outside India. Under the terms of the agreement, GSK has access to our diverse portfolio and future pipeline of more than 100 branded pharmaceuticals in certain therapeutic segments. The products will be manufactured by us and will be licensed and supplied to GSK in various emerging markets such as Africa, the Middle East, Latin America and Asia Pacific, excluding India. Revenues will be reported by GSK and will be shared with us in accordance with the terms of the agreement. In certain markets, products will be co-marketed by us and GSK.

In June 2009, the U.S. FDA granted approval of our Abbreviated New Drug Application (ANDA) for Omeprazole Mg OTC. Consequently, we launched omeprazole magnesium OTC as a private label product in the United States in December 2009.

In June 2009 and January 2010, the management and works councils (i.e., organizations representing workers) of our German subsidiaries, beta Holding GmbH (betapharm) and Reddy Holding GmbH, completed negotiations of a social plan for workforce reduction and restructuring, including their physician sales force. These actions were necessary to achieve a more sustainable workforce structure as a result of the evolving model of the generics pharmaceutical industry in Germany. As at March 31, 2010, the total headcount in Germany was 132, including part-time employees and staff employed in beta Institute for Socio medical Research, our affiliated non-profit organization.

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Effective July 1, 2009, our drug discovery operations at Hyderabad, India were absorbed into Aurigene Discovery Technologies Limited (Aurigene), one of our wholly-owned subsidiaries. Aurigene is a partnership based drug discovery biotechnology company headquartered in Bangalore, India. We also closed our discovery research facility in Atlanta, Georgia in the United States of America. Our Discovery Research business resources (i.e., employees, facility and infrastructure) have been transferred and leased to Aurigene, which will now operate out of two sites in India: Bangalore and Hyderabad. In addition, we have created a new group to focus on proprietary products development, which will be responsible for building our proprietary, branded research and development portfolio in collaboration with various partners and service providers. This group will work with Aurigene and other discovery biotechnology companies to ensure effective management of our ongoing and future drug discovery programs. All of the existing intellectual property of our drug discovery operations will be owned and managed by this new group. This group will also have responsibility for our research and development portfolio and our differentiated formulations efforts.

In September, 2009, we concluded a transaction in the United States for the purchase from Lupin Ltd. of an ANDA on Antara® (fenofibrate capsules). As part of this transaction, we have obtained the rights to launch the product at a time prior to the expiration of the listed patents.

In October 2009, we announced our settlement agreement with Novartis International AG (Novartis) for a generic version of Novartis Lotrel® tablets, which involves a stipulation of dismissal of the lawsuits in the United States relating to our ANDA. Under the terms of the settlement agreement, we will launch the generic version prior to the expiration of the Orange Book patents for the product.

In November 2009, we entered into an agreement with Forest Laboratories, Inc. which allows us to manufacture and market memantine, which is a generic version of Forest Laboratories, Inc. s NAMENDA® tablets, prior to patent expiration, the exact date being subject to certain contingencies. The agreement resolves all pending patent infringement actions filed by Forest Laboratories, Inc. against us in the U.S. District Court for the District of Delaware.

In January 2010, we and our partner, Rheoscience A/S (Rheoscience), announced the headline results from the first phase III study for the investigational agent Balaglitazone (DRF 2593), a partial PPAR-gamma agonist, for the treatment of type 2 diabetes. The study (Study 307) was a phase III, randomized, double blind, parallel-group placebo- and active comparator-controlled clinical study to determine the efficacy and safety of balaglitazone. The study showed that the trial met its primary endpoint of reduction in HbA1c.

In February, 2010 we reorganized a part of our North America Generics business to centralize all commercial and business functions into our New Jersey office and centralize all operational and logistics functions into our Louisiana facility. This is expected to enhance the simplicity and scalability of our U.S. generics business, allowing us to improve our service to customers, and support the significant growth we anticipate in the next several years.

In order to build a robust generics pipeline, in the year ended March 31, 2010, we filed 12 ANDAs in the United States. Cumulatively, we have filed 158 ANDAs, out of which 73 ANDAs were pending approval at the U.S. FDA, including 11 tentative approvals. In our Pharmaceutical Services and Active Ingredients segment we filed 36 Drug Master Files (DMF) in the year ended March 31, 2010 worldwide, 19 of which were filed in the United States, 5 in Canada, 8 in Europe and 4 in other countries. With these filings, we had filed a total of 156 U.S. DMFs as of March 31, 2010. Including the United States filings, as of March 31, 2010, we had made a total of 375 DMF filings worldwide.

During the year ended March 31, 2010, we concluded a legal reorganization to amalgamate (i.e., merge) our wholly-owned subsidiary, Perlecan Pharma Private Limited (Perlecan Pharma), into our parent company. The appropriate High Court of India approval authorizing such amalgamation was received by us during the year ended March 31, 2010.

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On March 31, 2010, our Board of Directors approved a scheme for the issuance of bonus debentures that would be effected by capitalization of the retained earnings, subject to the successful receipt of the necessary approvals of our shareholders, the High Court of Andhra Pradesh, India and other identified regulatory authorities as mentioned in the proposed scheme. On May 28, 2010 a general meeting of our shareholders was held in which the proposed bonus debenture scheme was approved. The proposed bonus debenture scheme entails the issuance and allotment of unsecured, non-convertible, redeemable, fully paid up (i.e., the shareholders need not pay any amounts to receive them) bonus debentures carrying a face value of Rs.5 each (bonus debentures) to our shareholders, in the ratio of 6 bonus debentures for each equity share held by them, on a date to be determined in future. The bonus debentures will carry a coupon rate (to be determined in the future) that is to be paid annually. Additionally, these bonus debentures would be redeemable upon our election at the end of 36 months from the initial date of issuance. No adjustments have been recorded for this proposed scheme in our audited consolidated financial statements, as the proposed bonus debenture scheme will become effective only after the successful receipt of approvals from the High Court of Andhra Pradesh, India and other identified regulatory authorities as mentioned in the proposed scheme. On July 19, 2010, we received the High Court s approval to the scheme and we have concurrently made applications to the other regulatory authorities in order to seek the necessary approvals to effectuate the scheme.

During the years ended March 31, 2008, 2009 and 2010, we invested Rs.6,208 million, Rs.4,426 million and Rs.4,068 million (net of sales of capital assets), respectively, on capital expenditures for manufacturing, research and development facilities and other assets. These investments will create the capacity to support our strategic growth agenda. We also had contractual commitments of approximately Rs.2,948 million for capital expenditures. These commitments included approximately Rs.2,860 million to be spent in India and Rs.88 million in other countries.

During the years ended March 31, 2008, 2009 and 2010, 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.

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

Established in 1984, we are an integrated global pharmaceutical company committed to providing affordable and innovative medicines through our three core business segments:

- our Global Generics segment, which includes branded and unbranded prescription and over-the-counter (OTC) drug products business;
- our Pharmaceutical Services and Active Ingredients (PSAI) segment, which consists of our Active Pharmaceutical Ingredients business and our Custom Pharmaceutical Services business; and
- our Proprietary Products segment, which consists of our Generic Biopharmaceuticals business, our New Chemical Entities (NCEs) business, our Differentiated Formulations business and our dermatology focused specialty business operated through Promius Pharma.

We have a strong presence in highly regulated markets such as the United States, the United Kingdom and Germany, as well as in emerging markets such as India, Russia, Venezuela, Romania and certain countries of the former Soviet Union.

OUR STRATEGY

Our strategy is to combine industry-leading science and technology, product offerings and customer service with execution excellence to provide affordable and innovative medicines for healthier lives. The key elements of our strategy include:

Strengths in Science and Technology

Our strengths in science and technology range from synthetic organic chemistry, formulation development, biologics development and small molecule based drug discovery. Such expertise enables the creation of unique competitive advantages with an industry-leading intellectual property and technology-leveraged product portfolio.

Product Offerings

a) Global Generics

Branded Generics: We seek to have a portfolio that is strongly differentiated and offers compelling advantages to doctors and patients.

Unbranded Generics: We aim to ensure that we deliver first to market products to our customers, including pharmacy chains and distributors, and that they have high product availability from us combined with low inventories, resulting in superior inventory turns while addressing the customers needs.

Vertical integration and process innovation ensures that our products remain competitive.

b) Pharmaceutical Services and Active Ingredients

Our product offerings are geared to offer intellectual property and technology-advantaged products to enable launches ahead of others at competitive prices.

In the area of services, we aim to offer niche product service capabilities, technology platforms, and competitive cost structures to innovator companies.

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c) Proprietary Products

Differentiated Formulations: Our emerging Differentiated Formulations portfolio, which consists of new, synergistic combinations as well as technologies that improve safety and/or efficacy by modifying pharmacokinetics of existing medicines, is focused on significant clinically unmet needs. We are also investigating new indications for existing medicines.

New Chemical Entities (NCEs): We are also focused in the discovery, development and commercialization of novel small molecule agents in therapeutic areas such as bacterial infections, metabolic disorders and pain and inflammation.

Execution Excellence (Building Blocks)

Execution excellence provides the framework to create sustainable customer value across all of our activities. We have been investing in the following to achieve this:

Lean Manufacturing Eliminating waste and reducing cycle time, with a focus on capacity constrained resources.

Quality by Design Building quality into all processes and using quality tools to eliminate process risks.

Principles of the Theory of Constraints We apply these principles primarily in supply chain and product development. This ensures high availability with low inventory through a pull-based logistics system. It also ensures speed in product development through critical chain project management.

Leadership Development Developing leaders, as well as enhancing leadership behavior across the organization.

OUR PRINCIPAL AREAS OF OPERATIONS

The following table shows our revenues and the percentage of total revenues of our segments for the years ended March 31, 2008, 2009 and 2010, respectively:

(Rs. in millions, U.S.$ in millions)

	Year Ended March 31,						
Segment	**2008**		**2009**		**2010**		
Global Generics	Rs. 32,872	66%	Rs. 49,790	72%	Rs. 48,606	69%	U.S.$ 1,081
Pharmaceutical Services and Active Ingredients	16,623	33%	18,758	27%	20,404	29%	454
Proprietary Products	190	%	294	%	513	1%	11
Others	321	1%	599	1%	754	1%	17
Total Revenues	**Rs. 50,006**	**100%**	**Rs. 69,441**	**100%**	**Rs. 70,277**	**100%**	**U.S.$ 1,563**

Global Generics Segment

During the year ended March 31, 2009, we re-organized our worldwide finished dosages businesses to focus on certain key geographies and gradually exited some very small, distributor driven markets. This move represented an important new focus to consolidate and grow our presence in the key geographies where we already had a considerable presence.

Today, we are one of the leading generic pharmaceutical companies in the world. With the integration of all the markets where we are selling generics pharmaceuticals into our Global Generics segment, our front-end business strategies in various markets and our support services in India are increasingly being developed with a view to leverage our global infrastructure.

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The production processes for finished dosages are similar, to a certain extent, regardless of whether the finished dosages are to be marketed to highly regulated or less regulated markets. In many cases, the processes share common and interchangeable facilities and employee bases, and use similar raw materials. However, differences remain between highly regulated and less regulated markets in terms of manufacturing, packaging and labeling requirements and the intensity of regulatory oversight, as well as the complexity of patent regimes. While the degree of regulation in certain markets may impact product development, we are observing increasing convergence of development needs throughout both highly regulated and less regulated markets. As a result, when we begin the development of a product, we may not necessarily target it at a particular market, but will instead target the product towards a cluster of markets that will include both highly regulated and less regulated markets.

Our Global Generics segment s revenues were at Rs.48,606 million in the year ended March 31, 2010, as compared to Rs.49,790 million in the year ended March 31, 2009. This decrease was primarily due to lower revenues from sumatriptan tablets in North America as compared to the year ended March 31, 2009, partially offset by increased revenues from sales in India and Russia. Sumatriptan generated revenues of Rs.2,543 million in the year ended March 31, 2010, as compared to Rs.7,188 million in the year ended March 31, 2009.

The following is a discussion of the key markets in our Global Generics segment.

India

Approximately 21% of our Global Generics segment s revenues in the year ended March 31, 2010 were derived from sales in the Indian market. In India, we mainly focus on the therapeutic categories of gastro-intestinal, cardiovascular, pain management and diabetes management. Our Global Generics segment s revenues from India increased by 20% to Rs.10,158 million for the year ended March 31, 2010, as compared to Rs.8,478 million for the year ended March 31, 2009. This growth was primarily attributable to a 6% increase in revenues (amounting to Rs.489 million) due to new product launches and a 16% increase in sales volumes of key brands (such as Omez and Omez DR, our brands of omeprazole, Razo and Razo D, our brand of rabeprazole, Reditux, our brand of rituximab, and Nise, our brand of nimesulide), which was partially offset by a decrease of 2% in price realizations. Key new product launches during the year ended March 31, 2010 included Redicate, our brand of cefixime, Myezom, our brand of bortizomib, Finrid, our brand of fentanyl, Reswas, our brand of levodropropizine and chlorphrniramine maleate, Azorta, our brand of azithromycin, and Nexret, our brand of tretinoin microsphere gel.

As of March 31, 2010, we had a total of 221 branded products in India. Our top ten branded products together accounted for 38% of our revenues in India in the year ended March 31, 2010. According to Operations Research Group International Medical Statistics (ORG IMS), a market research firm, in its Moving Annual Total (MAT) report for the 12-month period ended March 31, 2010, our secondary sales (i.e., sales directly to end users) in India grew by 23% as compared to Indian pharmaceutical market growth of 18%. According to ORG IMS in the foregoing MAT report, as of March 31, 2010, we had 65 brands that were ranked either first or second in terms of secondary sales in India in their respective product categories. According to the Center for Marketing and Advertising Research Consultancy, a market research firm, in a report that measured doctors prescriptions for the period from November 2009 to February 2010, we were ranked ninth in terms of the number of prescriptions generated in India during such period.

The following tables summarize the position of our top 10 brands in the Indian market for the years ended March 31, 2008, 2009 and 2010, respectively:

	Year Ended March 31,					
	2008		2009		2010	
BRAND	Revenues in millions	% Total(1)	Revenues in millions	% Total(1)	Revenues in millions	% Total(1)
Omez	Rs. 763	9%	Rs. 776	9%	Rs. 928	9%
Nise	626	8%	605	7%	690	7%
Stamlo	403	5%	422	5%	473	5%

Stamlo beta		305	4%		301	4%	326	3%
Omez-DSR		166	2%		210	2%	310	3%
Atocor		244	3%		269	3%	274	3%
Razo		180	2%		214	3%	247	2%
Reditux		154	2%		199	2%	232	2%
Mintop		150	2%		172	2%	196	2%
Razo D		111	1%		138	2%	169	2%
Others		4,958	62%		5,172	61%	6,313	62%
Total	**Rs.**	**8,060**	**100%**	**Rs.**	**8,478**	**100%**	**Rs. 10,158**	**100%**

(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.

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Sales, marketing and distribution network

We generate demand for our products by detailing them to doctors who prescribe them, and meeting with pharmacists to ensure that the pharmacists stock our brands. While we do not sell directly to doctors or pharmacists, our approximately 3,165 sales representatives and front line managers frequently visit doctors and pharmacists throughout the country to detail our products. During the year ended March 31, 2010, we increased our total sales personnel in India by 717.

We sell our products primarily through clearing and forwarding agents to approximately 2,245 wholesalers who decide which brands to buy based on demand. The wholesalers 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 wholesalers and ensuring that the wholesalers 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.

Competition

Of the top twenty participants in the Indian formulations market, four are multinational corporations and the rest are Indian corporations. We compete with different companies, depending upon therapeutic and product categories and, within each category, upon dosage strengths and drug delivery. On the basis of sales, we were the 13th largest pharmaceutical company in India, with a market share of 2.27%, according to ORG IMS in its MAT report for the 12-month period ended March 31, 2010.

Some of the key observations on the performance of the Indian pharmaceutical market, as published by ORG IMS in its MAT report for the period ended March 31, 2010, are as follows:

- The Indian pharmaceutical market, including retail and hospital sales, registered a growth of 17.7% during the year ended March 31, 2010.
- New products launched in the preceding 24 months accounted for 7.8% of total Indian pharmaceutical growth during the year ended March 31, 2010.
- The top 300 existing brands grew at a rate of 18.1%, which was marginally higher than the Indian pharmaceutical market s overall average, and continued to account for 33% of the market s total sales.
- There was an increasing emergence of bio-similar products to address the needs of patients in the oncology therapeutic area.

Our principal competitors in the Indian market include Cipla Limited, Ranbaxy Laboratories Limited, Glaxo SmithKline Pharmaceuticals Limited, Piramal Healthcare Limited, Cadila Healthcare Limited, Sun Pharmaceuticals Industries Limited, Alkem Limited, Pfizer Inc., Mankind Limited, Lupin Limited, Aristo Pharma Limited and Abbott Limited.

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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), Drugs and Magic Remedies (Objectionable Advertisements) Act, 1954, the Narcotics Drugs and Psychotropic Substances (NDPS) Act, 1985, 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 administration agencies 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, 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 India are subject to regulations issued by its Ministry of Health (MoH). These regulations govern or influence the testing, manufacturing, packaging, labeling, storing, record-keeping, safety, approval, advertising, promotion, sale and distribution of products.

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 bio-availability and/or bio-equivalence studies. Bio-availability 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. Bio-equivalence 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 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, more than 70 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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Russia and Other Countries of the former Soviet Union

Russia

Russia accounted for 15% of our Global Generics segment s revenues in the year ended March 31, 2010. Pharmexpert, a market research firm, ranked us 16th in sales in Russia with a market share of 1.4% as of March 31, 2010 in its moving annual total report for first quarter 2010 (the Pharmexpert MAT March 2010 report). Pharmexpert also reported that we grew by 21% in the year ended March 31, 2010, as compared to Russia s pharmaceutical market growth of 8.3%. We were the top ranked Indian pharmaceutical company in Russia.

The following table provides a summary of the revenues of our top 10 brands in the Russian market for the years ended March 31, 2008, 2009 and 2010, respectively:

	2008		2009		2010	
Brand	**Revenues in millions**	**% Total(1)**	**Revenues in millions**	**% Total(1)**	**Revenues in millions**	**% Total(1)**
Nise	Rs. 799	20%	Rs. 1,249	21%	Rs. 1,862	26%
Omez	849	21%	1,281	21%	1,458	20%
Ketorol	797	20%	1,078	18%	1,287	18%
Ciprolet	550	13%	701	12%	760	11%
Cetrine	199	5%	339	6%	408	6%
Enam	255	6%	315	5%	337	5%
Exifine	140	3%	210	4%	220	3%
Bion	62	2%	171	3%	165	2%
Ibuclin	37	1%	67	1%	113	2%
Mitotax	105	3%	148	2%	107	1%
Others	271	6%	244	7%	515	7%
Total	**Rs. 4,064**	**100%**	**Rs. 5,803**	**100%**	**Rs. 7,232**	**100%**

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

Our top four brands, Omez, Nise, Ketorol and Ciprolet, accounted for 75% of our Global Generics segment s revenues in Russia in the year ended March 31, 2010. Omez (an anti-ulcerant product), Nise and Ketorol (pain management products) and Ciprolet (an anti-infective product) were ranked as the 36th, 22nd, 65th and 141st best selling formulation brands, respectively, in the Russian market as of March 31, 2010 by Pharmexpert in its MAT March 2010 report.

Our strategy in Russia is to focus on the therapeutic areas of gastro-intestinal, pain management, anti-infectives, oncology and cardiovascular. Our focus is on building brand leaders in these therapeutic segments. Omez, Ciprolet, Nise and Ketorol continued to be brand leaders in their respective categories, as reported by Pharmexpert in its MAT March 2010 report.

Growth during the year was driven by sales and marketing initiatives to target specialists through field sale forces focused on them, and an over-the-counter (OTC) initiative for certain brands.

Other Countries of the former Soviet Union:

We operate in other countries of the former Soviet Union, including Ukraine, Kazakhstan, Belarus and Uzbekistan. For the year ended March 31, 2010, revenues from these countries accounted for approximately 3.9% of our total Global Generics segment s revenues. The Global Generics revenues from these countries was Rs.1,887 million in the year ended March 31, 2010 as compared to Rs.1,821 million in the year ended March 31, 2009. In all of these markets, we operate through third party distributors who purchase our goods and in turn sell them to wholesalers. Our Global Generics business was adversely affected by the global economic crisis, which resulted in liquidity issues in these markets and our distributors were impacted by significant local currency devaluations against the U.S. dollar. We instituted strict credit controls and receivables monitoring mechanisms to mitigate our collection risks and, as a result, we managed to avoid any write-offs.

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Sales, marketing and distribution network

During the year ended March 31, 2010, we further expanded our Russian field force.

Our sales and marketing efforts are driven by a team of 346 medical representatives, 29 regional managers, 9 zonal managers and 18 key account managers to detail our products to doctors in 67 cities in Russia. During the year ended March 31, 2010, we increased our field personnel in Russia by approximately 48.

Our Russian OTC division has 89 medical representatives and 40 pharmaceutical representatives, and is focused on establishing a network of relationships with OTC distributors in preparation for future product launches. Our Russian hospital division has 32 hospital specialists and 16 key account managers, and is focused on expanding our present network of hospitals and institutes.

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. We review the credit terms offered to our key customers and modify them to take into account the current macro-economic scenario in Russia.

Competition

Our principal competitors in the Russian market include Berlin Chemi AG, Gedeon Richter Limited, Krka d.d., Pliva d.d. (an affiliate of Teva Pharmaceutical Industries Ltd.), Lek Pharmaceuticals d.d. (an affiliate of Sandoz and Novartis Pharma A.G), Ranbaxy Laboratories Limited, Nycomed International Management GmbH and Zentiva N.V. (an affiliate of Sanofi-Aventis S.A.).

Healthcare reforms and reference pricing

The Russian government s prioritization plan for the pharmaceutical market is making a transition from a largely out-of-pocket market to the western European model of centralized reimbursements. In January 2005, Russia s federal drug supply system (the Dopolnitelnoye lekarstvennoye obespechenoye, or DLO) was introduced with the objective of subsidizing medicine expenditures for sectors of the population with low income or certain categories of illnesses. The initial budget provided approximately 10% of the population with state-funded benefits for medicine expenditures. In late 2007, the Russian government decentralized the DLO and split it into two components. The first component, known as the 7 nosologies program, remains centralized and covers expensive treatments for patients with certain severe chronic diseases. The second component, known as the ONLS program, involves regional purchasing and covers the medicines reimbursed for patients who are designated members of vulnerable groups, such as children, pregnant women, veterans and the elderly.

During the year ended March 31, 2010, the Russian government announced a reference pricing regime, pursuant to which a price freeze on certain drugs categorized as essential was implemented effective as of April 2010. Pharmaceutical companies have had to register maximum import prices for approximately 5,000 drugs on a list of Essential and Vital Drugs (also known as the ZhNVLS).

North America (United States and Canada)

In North America (the United States and Canada), we sell generic drugs which are the chemical and therapeutic equivalents of reference branded 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. These drugs are required to meet the U.S. FDA standards that are similar to those applicable to their brand-name equivalents and must receive regulatory approval prior to their sale.

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.

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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.

Revenues from North America (the United States and Canada) generics sales decreased by 15% to Rs.16,817 million during the year ended March 31, 2010, as compared to Rs.19,843 million in the year ended March 31, 2009. During the year ended March 31, 2010, North America (the United States and Canada) accounted for 35% of the total Global Generics segment s sales. The reduction in sales for the year ended March 31, 2010 was mostly because of the end of exclusivity for the product sumatriptan, our authorized generic version of Imitrex®. Excluding sumatriptan, our North American generics portfolio experienced 13% growth in revenues.

During the year ended March 31, 2010, we launched nine new products, including one OTC offering. The new products included nateglinide, omeprazole magnesium, metformin glyburide and fluoxetine DR. These new launches generated revenues of Rs.763 million, or 5% of our total North America revenues.

Through the coordinated efforts of our teams in the United States and India, we constantly seek to expand our pipeline of generic products. During the year ended March 31, 2010, we filed 12 ANDAs in the United States, including six Paragraph IV filings. During the year ended March 31, 2010, the U.S. FDA granted us 12 final ANDA approvals and five tentative ANDA approvals. As of March 31, 2010, we had filed a cumulative total of 158 ANDAs in the United States, out of which 73 ANDAs were pending approval at the U.S. FDA, including 11 tentative approvals. The key product approvals during the year ended March 31, 2010 include fexofenadine and pseudoephedrine hcl, omeprazole mg, metformin glyburide and fluoxetine DR.

Sales, Marketing and Distribution Network

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 (the United States and Canada). 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. Our key account representatives for generic products call on purchasing agents for chain drug stores, drug wholesalers, health maintenance organizations and pharmacy buying groups.

During the year ended March 31, 2010, we announced a reorganization of our North American Generics business to centralize all commercial and business functions into our New Jersey office and centralize all operational functions into our Louisiana facility.

In the year ended March 31, 2008, we launched our own OTC products division and successfully introduced ranitidine 150 mg OTC in September 2007 and cetirizine 10 mg OTC in January 2008. During the year ended March 31, 2010, omeprazole mg was launched and the sales of our OTC business in the United States during the year ended March 31, 2010 generated revenues of Rs.1,575 million.

In Canada, in the year ended March 31, 2002, we entered into a profit sharing arrangement with distributors to market certain of our generic products. This business generated revenues of Rs.480 million during the year ended March 31, 2010.

In April 2008, we acquired BASF s pharmaceutical contract manufacturing business and related facility in Shreveport, Louisiana in the United States of America. This business involves contract manufacturing of generic prescription drugs and OTC products for branded and generic companies in the United States. The acquisition strengthened our supply chain for North America (the United States and Canada) and provides a strong platform for pursuing additional growth opportunities. Expansions to the Shreveport facility are being planned, as more fully described below under

the section titled *Global Generics Manufacturing and Raw Materials* .

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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 Teva Pharmaceutical Industries Limited, Mylan Inc., Watson Pharmaceuticals, Inc., Sandoz, a division of Novartis Pharma A.G, Ranbaxy Laboratories Limited and Caraco Pharmaceuticals Laboratories Limited.

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.

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 pharmaceutical ingredients and dosage forms and the power to halt the 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*, commonly 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.

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Before approving a product, the FDA also requires that our procedures and operations conform to 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) modified certain provisions of the Hatch-Waxman Act. In particular, significant changes were 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 of 2003, 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 of 2003, the statutory provisions governing 180-day exclusivity prior to the Medicare Act of 2003 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.

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United States Healthcare Reform Patient Protection and Affordable Care Act

In March 2010, the Patient Protection and Affordable Care Act , as amended by the Health Care and Education Affordability Reconciliation Act (collectively, the PPACA), was signed into law. The PPACA is one of the most significant healthcare reform measures in the United States in decades, and is expected to significantly impact the U.S. pharmaceutical industry. Among the provisions of the PPACA that may affect our business include the following:

The PPACA is anticipated to expand healthcare coverage to tens of millions of U.S. citizens, mostly those employed in smaller companies and the unemployed. The PPACA also reduces certain co-payments for Medicaid, a joint federal and state health insurance program for the poor. These changes should provide opportunities for us to increase our pharmaceutical products sales volumes in the long term.

The PPACA also imposes new rules regarding insurance regulation and access. For example, there will be new regulations governing the insurance industry that will prohibit the denial of coverage due to pre-existing diseases, and ban placing lifetime value limits on insurance policy coverages. Indirectly, these reforms should also provide opportunities for us to improve our pharmaceutical products sales volumes in the long term.

In addition, the PPACA set forth new regulations relating to biological drugs. Among other things, the PPACA creates an abbreviated pathway to U.S. FDA approval of bio-similar biological products and allows the first interchangeable bio-similar product 18 months of exclusivity. These pro-generic provisions may provide increased opportunities for our bio-generics business, but also could increase competition in that field and thus adversely impact the selling prices, costs and/or profit margins for our bio-generics business. Conversely, the PPACA also has some anti-generic provisions, including provisions granting the innovator of a biological drug product 12 years of exclusive use before generic drugs can be approved based on being bio-similar. Such provisions may inhibit our ability to obtain U.S. FDA approval for our bio-similar products, and thus could adversely affect our bio-generics business.

The PPACA imposes on pharmaceutical manufacturers a variety of additional rebates, discounts and fees. Among other things, the PPACA includes annual, non-deductible fees that go into effect in 2011 for entities that manufacture or import certain prescription drugs and biologics. This fee will be calculated based upon each organization s percentage share of total branded prescription drug sales to U.S. government programs (such as Medicare, Medicaid and Veterans Affairs and Public Health Service discount programs), and authorized generic products are treated as branded products. In addition, the PPACA changes the computations used to determine Medicaid rebates owed by manufacturers under the Medicaid Drug Rebate Program by redefining the average manufacturer s price (AMP), effective October 1, 2010, and by using 23.1% instead of 15% of AMP for most branded drugs and 13% instead of 11% of AMP for generic drugs, effective January 1, 2010. The impact of the retroactive Medicaid rebate changes has been accounted for in our consolidated financial statements, but it was not material to our U.S. revenues. The PPACA also increases the number of healthcare entities eligible for discounts under the Public Health Service pharmaceutical pricing program.

The PPACA makes several important changes to the federal anti-kickback statute, false claims laws, and health care fraud statutes that may make it easier for the government or whistleblowers to pursue such fraud and abuse violations. In addition, the PPACA increases penalties for fraud and abuse violations. If our past, present or future operations are found to be in violation of any of the laws described above or other similar governmental regulations to which we are subject, we may be subject to the applicable penalty associated with the violation which could adversely affect our ability to operate our business and our financial results.

To further facilitate the government s efforts to coordinate and develop comparative clinical effectiveness research, the PPACA establishes a new Patient-Centered Outcomes Research Institute to oversee and identify priorities in such research. The manner in which the comparative research results would be used by third-party payors is uncertain.

The impact of the PPACA will be seen as it is implemented, by promulgation of regulations and other administrative and judicial actions. We are continuing to evaluate the impact of the PPACA and how it may affect our business.

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Canada Regulatory Environment

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

Europe

The European Union (the EU) presents significant opportunities for the sale of generic drugs. In the EU, the manufacture and sale of pharmaceutical products is regulated in a manner substantially similar to that in the United States. Legal requirements generally prohibit the handling, manufacture, marketing and importation of any pharmaceutical product unless it is properly registered in accordance with applicable law. The registration file relating to any particular product must contain medical data related to product efficacy and safety, including results of clinical testing and references to medical publications, as well as detailed information regarding production methods and quality control. Health ministries are authorized to cancel the registration of a product if it is found to be harmful or ineffective, or manufactured and marketed other than in accordance with registration conditions.

Our sales of generic drugs in Europe for the year ended March 31, 2010 were Rs.9,643 million, which accounted for 20% of our Global Generics segment s sales, and represented a decrease of 19% as compared to sales of generic drugs in Europe for the year ended March 31, 2009. This decrease was largely on account of our German operations, which were impacted by the shift to a tender based supply model and other significant changes within the German generic pharmaceutical market, as further explained below. Within Europe, significant sales are generated by beta Holding GmbH (betapharm), our German subsidiary. In March 2006, we acquired 100% of betapharm from 3i Group plc, a European private equity firm. This acquisition allowed us to enter the German generics market. Key new product launches in the year ended March 31, 2010 included clopidogrel and pantoprazole.

Sales, Marketing and Distribution Network

Germany. Over the last three years, the German pharmaceutical market underwent a significant change. The new healthcare reform (the Statutory Health Insurance Competition Strengthening Act or Wettbewerbsstärkungsgesetz (GKV WSG) (an act to strengthen the competition in public health insurance), which was effective as of April 1, 2007, has significantly increased the power of insurance companies and statutory health insurance funds (SHI funds) to influence dispensing of medicines. Pursuant to the new law, pharmaceutical products covered by rebate contracts with insurance companies have to be prescribed by physicians and dispensed by pharmacies. This has increased the power of insurance funds. As a result, several SHI funds have entered into rebate contracts with pharmaceutical companies, causing pressure on margins.

Pursuant to the rapid shift of the German generic pharmaceutical market towards a tender (i.e., competitive bidding) based supply model, further tenders were announced by several SHI funds during the year ended March 31, 2010. We participated in these tenders through our wholly-owned subsidiary, betapharm. The final results of a majority of these tenders were announced during the year ended March 31, 2010 with a lower than anticipated success rate for betapharm.

Traditionally, the SHI fund contracts had the elements of basic rebate and incremental rebates on additional prescriptions generated through persons insured by these SHI funds. Since the new healthcare reforms, the SHI funds have been aggressive in negotiating rebates for their contracts. Consequently, in recent years they have negotiated higher discounts.

We sell a broad and diversified range of generic pharmaceutical products under the betapharm brand. Value-added services provided by the beta institute gemeinnützige GmbH, also known as the beta Institute for Socio medical Research, are fully integrated into the sales and marketing effort and provide a unique differentiation point. The beta Institute for Socio medical Research is a non-profit organization engaged in research and development in order to seek means of improving the healthcare process in ways that promote the psychological welfare of patients.

With the above-mentioned discount contracts being effective, and further competitive bidding tenders announced by SHI funds, long term changes in the German structural framework conditions are ongoing. The German generics market has experienced a shift to a tender based supply model from that of a prescription based market, where the key driver for generating sales was doctors preferences and influence enjoyed by generic companies with the pharmacists. In response to these market changes, betapharm has undergone a comprehensive restructuring of its sales force, with a reduction of more than 200 people since we acquired it in March 2006.

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United Kingdom and other Countries within Europe

We market our generic products in the United Kingdom and other EU countries through our U.K. subsidiary, Dr. Reddy s Laboratories (U.K.) Limited. This subsidiary was formed in the year ended March 31, 2003 after our acquisition of Meridian Healthcare Limited, a United Kingdom based generic pharmaceutical company. We currently market approximately 29 generic products in such countries, representing over 103 dosage strengths. New product launches in the year ended March 31, 2010 included clopidogrel, losartan, pantoprazole, ranitidine and tizanidine.

We also seek to expand our presence to other European countries, either directly or through strategic alliances. Other European countries where we have a physical presence and have been able to build our franchise include Romania and Italy. We have a representative office in Romania, and our sales in Romania during the year ended March 31, 2010 were Rs.635 million.

We market our generic products in Italy through our Italian subsidiary, Dr. Reddy s SRL. This subsidiary was formed in the year ended March 31, 2009 in connection with our acquisition of Jet Generici SRL, a company engaged in sale of generic finished dosages in Italy. We currently market approximately 24 generic products representing 38 dosage strengths in Italy. New product launches in Italy during the year ended March 31, 2010 include lansoprazole, pantoprazole and sumatriptan.

In continuation to the realignment of our Global Generics segment s strategy for finished dosages to focus on certain key geographies, we closed our sales and marketing operations in Spain during the year ended March 31, 2010.

Competition

In Germany, we believe that the companies with the largest generics market shares are losing their market shares to companies having rebate contracts with SHI funds. Our key competitors within the German generics market include Sandoz group (including its Hexal, Sandoz and 1A Pharma subsidiaries), Ratiopharm group (including its Ratiopharm and CT Arzneimittel subsidiaries) and Stada group (including its Stada and Aliud subsidiaries). With the discount contracts with SHI funds becoming effective, long term structural changes are ongoing in the German market. Many companies have decided to cut their sales force to reduce fixed costs; others still believe that sales representatives remain a useful differentiating factor in this highly competitive environment.

The United Kingdom is one of the largest markets for generic pharmaceuticals in Europe. It is also one of the most competitive markets, due to its very low barriers to entry. Significant vertical integration exists between wholesalers and retailers, ensuring low prices as long as there are several suppliers. The number of major pharmaceutical companies in the U.K. pharmaceutical market has decreased due to consolidation.

Government regulations

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. Medicines and Health Care Products Regulatory Agencies (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. All the licensed facilities of pharmaceutical companies in Germany are 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.

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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 bio-equivalence with the reference product. Once all these criteria are met, 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 data exclusivity given to the innovator of a branded product expires before their patent expires, the launch of our product would then be delayed until patent expiration.

In Germany, the government is currently focused on reducing health care spending. During the year ended March 31, 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 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 and physicians); 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; and empowering the statutory health insurance funds to waive co-payments by patients.

Due to the AVWG, insurance companies operating in Germany have the power to influence prices, and they have done so by releasing several products from co-payment.

Further, the 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;
- 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 preference 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
- 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.

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As a result of these reforms, we expect a continuing pricing pressures in the German generics market and estimate that revenue growth will be driven by higher volumes and new launches.

Impairment

During the the year ended March 31, 2009, there were significant changes in the German generic pharmaceutical market which impacted the operations of our German subsidiary betapharm. The biggest change was the shift to a tender based supply model within the German generic pharmaceutical market, as most prominently evidenced by the announcement of a large competitive bidding (or tender) process by the Allgemeine Ortskrankenkassen (AOK), the largest German statutory health insurance fund (SHI fund). In addition, there was a continuing decrease in prices of pharmaceutical products and an increased quantity of discount contracts being negotiated with other SHI funds.

In the AOK tender, we were awarded 8 products (with 33 contracts) covering AOK-insured persons in various regions within Germany, which represented 17% of the overall volume of the products covered by the AOK tender. betapharm was among the top three companies in terms of number of contracts awarded. While our future sales volumes are expected to increase for the products awarded to us under the AOK tender, we expect that our overall profit margins under the AOK tender arrangement will be significantly lower due to decreased prices per unit of product. Also, the products awarded to us in the AOK tender did not include products which we consider to be our key products.

Due to these developments, as at March 31, 2009, we tested the carrying value of our product related intangibles and goodwill for impairment. The impairment test resulted in our recording an impairment loss on certain product related intangibles amounting to Rs.3,167 million and impairment loss of Rs.10,856 million on goodwill of the betapharm cash generating unit during the year ended March 31, 2009. Furthermore, due to the above adverse market developments and consequential impairment losses recorded by us in our betapharm cash generating unit, we also reviewed the useful life of our indefinite life intangible asset trademark/brand beta and revised it to 12 years.

During the year ended March 31, 2010, the shift to a tender based supply model continued in the German generics market, with increasing tender activity by a number of SHI funds (in addition to AOK). The SHI funds opted for tenders to a greater degree than we had anticipated during the year ended March 31, 2009. The final results of a majority of these tenders were announced, with a lower than anticipated success rate for betapharm. As a result of the increasing usage of tender processes by SHI funds, we expect that the contracts awarded in tenders are likely to account for a significant portion of future sales in the German generic pharmaceutical market, at a rate which is comparatively higher than the assumptions we had made earlier during the year ended March 31, 2009.

Due to such market conditions, we have reassessed the impact of these tenders on our future forecasted sales and profits. As a result of this re-evaluation, the carrying amounts of both the product related intangibles and the betapharm cash generating unit were determined to be higher than their respective recoverable amounts. Accordingly, an impairment loss of Rs.2,112 million for the product related intangibles and Rs.6,358 million for the betapharm cash generating unit has been recognized in our income statement. Of the impairment loss pertaining to the betapharm cash generating unit, Rs.5,147 million has been allocated to the carrying value of goodwill, thereby impairing the entire carrying value. The remaining Rs.1,211 million has been allocated to the trademark/brand beta , which forms a significant portion of the betapharm cash generating unit.

To offset the impact of reduced prices on betapharm s profitability, we increased the proportion of betapharm s products sourced from Indian manufacturing facilities, restructured betapharm s work force (terminating approximately 200 employees during the year ended March 31, 2010) and reduced betapharm s selling, general and administrative expenses to achieve a more sustainable structure in light of the current tender-based model and economic climate in Germany.

Other markets of our Global Generics segment

In March 2009, we announced a realignment of our Global Generics segment s strategy for finished dosages to focus on certain key geographies, and that we would gradually exit from some of our very small, distributor driven markets. During the year ended March 31, 2010, we exited from all such small, distributor driven markets. The markets we exited accounted for less than 1% of our total company revenues.

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The realignment resulting from this exit from small, distribution driven markets represents an important new focus in our Global Generics segment. Not only has this realignment resulted in consolidation and reduction in complexity of our operations, it has also enabled us to significantly enhance our customer service and to increase our market share in the key geographies where we already have a considerable presence.

Our revenues from other markets of this segment were Rs.2,868 million in the year ended March 31, 2010, as compared to Rs.1,959 million in the year ended March 31, 2009. The other key markets of our Global Generics segment include Venezuela, South Africa, New Zealand, Brazil, Myanmar, Jamaica, Sri Lanka and Vietnam.

Our revenues from Venezuela were Rs.1,005 million in the year ended March 31, 2010, as compared to Rs.639 million in the year ended March 31, 2009, with such increase primarily due to increases in both sales volumes and price. The increase in prices was largely attributable to Venezuela s high inflation rates during these periods.

In South Africa, we operate through a joint venture, with a controlling interest of 60% in the venture. Our revenues from this country were Rs.444 million in the year ended March 31, 2010, as compared to Rs.285 million in the year ended March 31, 2009. This increase in revenues was primarily due to an increase in sales volumes of our key brand Omez, our brand of omeprazole, as well as the launch of two new products, moxifloxacin and desloratidine.

In Australia, during the year ended March 31, 2010 we received approvals for three new products, amlodipine, terbinafine and risperidone, and commenced selling the latter two products. In Australia, we operate through Dr. Reddy s Laboratories (Australia) Pty Ltd. which, in past years, was a joint venture in which we owned a 70% equity interest. During the year ended March 31, 2010, we acquired the remaining 30% stake in such joint venture from the minority equityholders, and it is now our wholly-owned subsidiary.

GSK Alliance

During the year ended March 31, 2010, we entered into a strategic partnership with GlaxoSmithKline plc (GSK) to develop and market select products across emerging markets outside India. This partnership will expand our reach in emerging economies, and leverage our product portfolio and process development strengths across our Generic business and Differentiated Formulations business with GSK s market knowledge and presence in such markets. The products will be manufactured by us, and will be licensed and supplied to GSK in markets such as Latin America, Africa, the Middle East and Asia Pacific, excluding India. In view of the time required to file the dossiers in various markets, to obtain their approval from the respective authorities and to launch the products, this alliance is expected to make a meaningful contribution to our revenues only after a period of two to three years.

Global Generics Manufacturing and Raw Materials

Manufacturing for our Global Generics segment entails converting active pharmaceutical ingredients (API) into finished dosages. We have seven manufacturing facilities, six of which are in India and the other of which is in Shreveport, Louisiana, United States. We also have one packing facility in the United Kingdom. Two of the Indian facilities, one each at Hyderabad and Vizag are also U.S. FDA compliant. During the year ended March 31, 2010, the two facilities in India and the one in Louisiana were inspected by the U.S. FDA and there were no major open audit observations. The manufacturing site in Vizag, India is a state of art facility for the manufacture of injectable form and potent products. The Vizag facility has satisfactorily passed inspection by the National Health Surveillance Agency (also known as ANVISA) of Brazil and by the German drug regulator BfArM. These facilities are designed in accordance with Good Manufacturing Practice (GMP) requirements and are used for the manufacture of tablets and hard gelatin capsules, for sale in India as well as regulated and highly regulated markets.

We manufacture most of our finished products at these facilities and also use third-party manufacturing facilities as we determine necessary. We also purchase some products from approved third parties based on the necessity and requirement of our markets. For each of our products, we endeavor to identify alternate suppliers of our products and the processes applicable to our products.

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For the manufacturing of products intended to be sold in highly regulated markets, such as the United States, Europe, Australia, New Zealand, South Africa and Brazil, we are required to identify the suppliers of active raw materials for our products in the drug applications and dossiers. If raw materials for a particular product become unavailable from an approved source specified in a drug application, we are required to qualify a substitute supplier with the regulatory authorities, which could interrupt the manufacturing of the affected product. To the extent practicable, we attempt to identify more than one supplier in each drug application or make plans for alternate vendor development from time to time, considering the supplier s history and future product requirements. 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, respective country regulations, various import duties and other government clearances.

In addition to our manufacturing facilities within India, we have manufacturing facilities overseas (such as our facilities at Beverley, United Kingdom and Shreveport, Louisiana, USA) along with contract manufacturing sites. All these sites are approved by the respective regulatory bodies in the jurisdictions where they are located. In Germany, betapharm s products are mainly manufactured at our facilities in India and through some contract manufacturers at third party locations. We intend to continue shifting the manufacturing of betapharm products to our facilities in India. The logistics services for storage and distribution in Germany are outsourced to a third party service provider.

Manufacturing of finished dosages for less regulated markets is also subject to strict quality and contamination controls throughout the manufacturing process. We manufacture formulations in various dosage forms including tablets, capsules, injections, liquids and creams. These dosage forms are then packaged, quarantined and subject to stringent quality tests, to assure product quality before release into the market. We manufacture our key brands for our Indian markets at our facilities in Baddi, Himachal Pradesh and Yanam, Pondicherry, to take advantage of certain fiscal benefits offered by the Government of India, which include exemption from income tax and excise duty, in the case of Baddi, Himachal Pradesh, and exemption from income tax, in the case of Yanam, Pondicherry, for a specified period.

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.S. FDA, the U.K. MHRA, the South African Medicines Control Council, the Brazilian ANVISA, the Romanian National Medicines Agency, the Gulf Co-operation Council group, the Ministry of Health of Kirgystan and the World Health Organization, all of which have extensive enforcement powers over the activities of pharmaceutical manufacturers operating within their jurisdiction.

Product Transfers and Capacity Expansion

To meet growing demand in regulated markets, we are in the process of making one of our finished dosage facilities currently serving branded markets U.S. FDA compliant. This will ease the pressure and optimize the capacities across our plants. Furthermore, we are also in the process of expanding our existing facilities and setting up new manufacturing facilities. We have already acquired 9.22 acres of land at Baddi, Himachal Pradesh, India to set up a finished dosages plant. This will be our second facility at Baddi.

Shreveport Expansion

In July 2010, we entered in to an agreement with the state of Louisiana, in the United States of America, to expand our Shreveport operations with tax incentives and support from the state and local governments. The project aims to retain over 161 jobs while adding approximately 73 new jobs, and represents a capital investment of up to U.S.$16.5 million. The plans to expand the scope and scale of our Shreveport facility are driven by a combination of several factors including, among other considerations, the strategic fit of the products and capabilities of the site with our corporate growth objectives, the work ethic of the people of North Louisiana, and the state and local tax incentives offered to us. The 300,000-square-foot Shreveport facility is the largest producer of silver sulfadiazine cream and the second-largest producer of ibuprofen for the North American market. This planned expansion will allow us to support multiple new products at the site.

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Pharmaceutical Services and Active Ingredients Segment (PSAI)

Our PSAI segment accounted for 29% of our total revenues for the year ended March 31, 2010. This segment includes active pharmaceutical ingredients and intermediates (API), also known as active pharmaceutical products or bulk drugs, which are the principal ingredients for finished pharmaceutical products. This segment also includes contract research services and the manufacture and sale of API and steroids in accordance with specific customer requirements. API become finished pharmaceutical products when the dosages are fixed in a form ready for human consumption (such as a tablet, capsule or liquid) using additional inactive ingredients. We produce and market more than 100 different APIs in numerous markets. We export API to emerging markets, as well as developed markets, covering more than 80 countries. Our principal markets in this business segment include North America (the United States and Canada) and Europe. Our PSAI segment s API business is operated independently from our Global Generics segment and, in addition to supplying API to our Global Generics segment, our PSAI segment sells API to third parties for use in creating generic products, subject to any patent rights of other third parties. Our PSAI segment s API business also manufactures and supplies all of the API requirements of our pharmaceutical services business. The research and development group within our API business 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 pharmaceutical services (contract research and manufacturing) arm of our PSAI segment was established in 2001 to leverage our strength in process chemistry to serve the niche segment of the pharmaceutical and fine chemicals industry. Over the years, our business strategy in this area has evolved to focus on the marketing of process development and manufacturing services. Our objective 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 Current Good Manufacturing Practice (cGMP) manufacturing to serve various needs of innovator pharmaceutical companies. We have positioned our PSAI segment s Custom Pharmaceutical Services business 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

Emerging Markets. India is an important emerging market, accounting for 13% of the PSAI segment s revenues in the year ended March 31, 2010. In India, we market our API products to Indian and multinational companies, many of whom are also our competitors in our Global Generics segment. In India, our top six products are ciprofloxacin, ranitidine, ramipril, losartan potassium, clopidogrel and naproxen. 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.

Our sales to other emerging markets were Rs.7,433 million for the year ended March 31, 2010. Our other key emerging markets include Israel, Turkey, Mexico, South Korea, Brazil, Bangladesh, Iran, Malaysia, Argentina, Saudi Arabia, China, Egypt, Jordan, Syria, Australia, Chile, Thailand, South Africa, Taiwan and Indonesia. 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 (the United States and Canada) and Europe. In the United States and Europe, over the next two to three years, a large number of products are expected to lose patent protection, providing growth opportunities for our API business. We have been marketing API 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.

With respect to API, we filed 36 DMFs worldwide in the year ended March 31, 2010, 19 of which were filed in the United States, 5 in Canada, 8 in Europe and 4 in other countries. With these filings, we have a total of 156 U.S. DMFs

filed as of March 31, 2010. Also, as of March 31, 2010, we had filed 91 DMFs in Europe and had 31 certificates of suitability granted by European authorities.

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Including our Rest of the World markets (i.e., all markets other than North America, Europe, Russia and other countries of the former Soviet Union and India), as of March 31, 2010, we have made a total of 378 filings worldwide. For most of these, we are either already supplying commercial quantities or development quantities of API to various generic formulators.

For our custom pharmaceutical services line of business, we have focused business development teams dedicated to our key geographies of North America (the United States and Canada), the European Union and Asia Pacific. These teams target large and emerging innovator companies to build long-term business relationships focused on catering to their outsourcing needs.

Manufacturing and Raw Materials

The infrastructure for our PSAI segment consists of six U.S. FDA-inspected plants in India, a U.S. FDA-inspected plant in Mexico, a U.S. FDA-inspected plant in Mirfield, United Kingdom and three technology development centers, two of which are in Hyderabad, India and one of which is in Cambridge, United Kingdom.

India. All of the facilities in India are located in the state of Andhra Pradesh. With over 840 reactors of different sizes offering 2.6 million liters 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. We also source several APIs from third party suppliers for the emerging markets to optimally utilize our in-house manufacturing capacities for the developed markets, which are more profitable relative to the emerging markets. During the year ended March 31, 2010, approximately 6% of our total revenues resulted from sales of API procured from third-party suppliers. We maintain stringent quality controls when procuring materials from third-party suppliers.

Our API outsourcing activities were improved during the year ended March 31, 2010 as a result of a new initiative to strengthen our relationships with our API vendors, who we view as our business partners, through a dedicated quality assurance team. This initiative has helped us maintain a strong and sustaining supply chain. In line with our philosophy of ensuring that our business partners grow with us, we have implemented a strong infrastructure to improve the performance of our partners, both in volume and quality. This includes a dedicated team of professionals from our technical, quality and commercial teams working with the partners, as well as a dedicated quality laboratory and a development laboratory. This has further helped us to mitigate risks due to single source and quality related issues. During the year ended March 31, 2010, two of our manufacturing facilities in India were inspected by U.K. MHRA and there were no major audit observations.

Mexico. Our U.S. FDA inspected plant in Mexico was acquired from Roche during the year ended March 31, 2006. In addition to manufacturing the active pharmaceutical ingredients naproxen and naproxen sodium and a range of intermediates, the Mexico facility synthesizes steroids for use in pharmaceutical and veterinary products. During the year ended March 31, 2010, this plant sold 45 metric tons of epoxide, as an intermediate, to Roche for use in creating treatments for the epidemic swine flu which is categorized as Severe Acute Respiratory Syndrome, or more commonly known as SARS .

For our contract research services, we have well-resourced synthetic organic chemistry laboratories, analytical laboratories and kilo laboratories at our technology development centers at Miyapur and Jeedimetla in Hyderabad. We have added a new crystallization laboratory that enhances our technical capability to study finishing stages of API manufacturing and process safety. Our chemists and engineers understand cGMP manufacturing and regulatory requirements for synthesis, manufacture and formulation of a NCE from the pre-clinical stage to commercialization. To complete the full value chain in development services, we also provide formulation development services. We now have facilities for pre-formulation and formulation development, analytical development, clinical trial supplies, pilot scale and product regulatory support. Larger quantities of APIs are sourced from API plants in India and Mexico.

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The Dowpharma Small Molecules business, which we acquired from The Dow Chemical Company in April 2008, continues to offer niche capabilities, such as biocatalysis, chemocatalysis and hydroformulation, to provide cost effective solutions for chiral molecules. We are leveraging the acquired business and intangibles (including customer contracts, associated API products, process technology and know-how, technology licensing rights, trademarks and other intellectual property) to provide services and products to our existing customers, as well as new customers. The approximately 80 employees who joined us as a part of the acquisition have been integrated within our business. The non-exclusive license to Dow s Pfēnex Expression Technology for biocatalysis development, also acquired as part of the acquisition, continues to offer us opportunities to provide technology leveraged manufacturing services to innovators, including major global pharmaceutical companies. To further develop the acquired technologies and patents, during the year ended March 31, 2010 we commissioned a pharmaceutical grade mPEG alcohol manufacturing plant at our Cuernavaca facility in Mexico. We currently manufacture mPEG alcohols at our cGMP facility at Mirfield, United Kingdom. mPEG alcohols are the key raw materials for activated mPEGs, and are extensively used for pegylation with biologic drugs, and increasingly for peptides and small molecule pharmaceuticals. Consequently, during the year ended March 31, 2010, we launched our extensive range of activated mPEGs under the brand name PEGtech . Our contract research and manufacturing business is uniquely positioned in the market where it utilizes assets (both in terms of physical assets and technical know-how) of a vertically integrated pharmaceutical company and combines this with the service model which we built over the last few years.

Competition

The global API market can broadly be divided into highly regulated and less regulated markets. The less regulated markets offer low entry barriers in terms of regulatory requirements and intellectual property rights. The highly 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 the year ended March 31, 2010, 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, Aurobindo 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.

With respect to our custom pharmaceuticals business, we believe that contract manufacturing is a significant opportunity for Indian pharmaceutical companies, based on their strengths of a skilled workforce and a low-cost manufacturing infrastructure. Key competitors in India include Divis s Laboratories Limited, Dishman Pharmaceuticals & Chemicals Limited, Jubilant Organosys Limited and Nicholas Piramal India Limited. Key competitors from outside India include Lonza Group, Koninklijke DSM N.V., Albany Molecular Research, Inc., Patheon, Inc. and Cardinal Health, Inc. We distinguish ourselves from our key competitors by offering a wider range of cost effective 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, Novartis, Eli Lilly, Merck Sereno and GlaxoSmithKline are all executing plans to make India the regional hub for API and supply of bulk drugs.

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 administration agencies 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, the DCGI clearance has to be obtained in accordance with the Drugs and Cosmetics Act, 1940.

Our PSAI segment is subject to a number of government regulations with respect to pricing and patents as discussed below in our Global Generics segment.

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We submit a DMF for active pharmaceutical ingredients to be commercialized in the United States. Any drug product for which an ANDA is being filed must have a DMF in place with respect to a particular supplier supplying the underlying API. The manufacturing facilities are inspected by the U.S. FDA to assess compliance with Current Good Manufacturing Practice regulations (cGMP). 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. Eight of our manufacturing facilities are inspected by the U.S. FDA. 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.

Proprietary Products Segment

Our Proprietary Products segment involves the discovery of new chemical entities and differentiated formulations for subsequent commercialization and out-licensing. It also involves our specialty pharmaceuticals business which launched sales and marketing operations for in-licensed dermatology products in the year ended March 31, 2009.

During the year ended March 31, 2010, we completed the transition of our drug discovery operations at Hyderabad, India, and transferred most of our fixed cost assets, research laboratories and scientific and support staff to Aurigene Discovery Technologies Limited (Aurigene), one of our wholly-owned subsidiaries, while retaining all the intellectual property with our parent company. We also created a semi-virtual research and development group to continue our efforts towards developing not only new chemical entities, but also novel differentiated formulations. This reorganization helped us to significantly reduce our fixed costs, and provided us with flexibility to collaborate with discovery biotechnology companies, including Aurigene, to tap their expertise in the niche areas of our interest. This will ensure effective management of our ongoing and future drug discovery and differentiated formulations programs. This research and development group has started working towards building our proprietary, branded research and development portfolio in collaboration with various partners and service providers, including Aurigene. As part of the reorganization, we also closed our research facility in Atlanta, Georgia in the United States of America, and the intellectual property of our drug discovery operations arising out of Atlanta are being transferred to this new research and development group.

Proprietary Products business

In our Proprietary Products segment, we actively pursue discovery and development of new molecules, sometimes referred to as New Chemical Entities (or NCEs) and differentiated formulations. Our research and development programs focus on the following therapeutic areas:

- Metabolic disorders;
- Cardiovascular disorders;
- Bacterial infections; and
- Pain and inflammation.

Our principal research laboratory is based in Hyderabad, India. As of March 31, 2010, we employed a total of 47 scientists, including approximately 12 scientists who held Ph.D. degrees, across all of this segment s locations. For NCEs, we pursue an integrated research strategy at our laboratories, focusing on discovery of new molecular targets and the design 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. For differentiated formulations, we are focusing on developing novel formulations of currently marketed drugs or combinations thereof to address unmet medical needs.

While we continue to seek licensing and development arrangements with third parties to further develop our products pipeline, we also conduct clinical development of some candidate drugs ourselves, which will enable us to derive higher value for our products. 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.

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Alliances and Partnerships

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. In the year ended March 31, 2009, we agreed with Rheoscience to amend the terms of this agreement. Under the terms of the amended agreement, we and Rheoscience will share costs for Phase III development according to certain pre-determined formulas. The parties will also share eventual revenues, whether from direct sales of products by either party or from third parties who may be responsible for marketing the product in certain countries. The agreement is valid for a period of ten years from the date of commercialization. We retain the right to supply clinical development and commercial quantities of the requisite active pharmaceutical ingredients on an arm s length basis to all parties that commercialize DRF 2593. DRF 2593 commenced the first Phase III clinical trials in August 2007, which was completed in December 2009. The future strategy with respect to this molecule is currently being developed. In order to obtain approval from either the U.S. FDA or its European counterpart, the European Medicines Agency, many Phase III clinical trials will be required to be conducted over several years (the precise duration of which will be decided by the applicable regulatory authorities, after reviewing some of our Phase III clinical trials data).

In March 2009, we filed an Investigational New Drug (IND) application for DRL 17822, a selective inhibitor of cholesterylester transfer protein (or CETP), for the treatment of dyslipidemia, atherosclerosis and associated cardiovascular diseases. The compound showed potent elevation in high-density lipoprotein (or HDL) cholesterol and reduction of atherosclerotic plaques in animals, and has a clean safety profile in preclinical studies. Two out of three Phase I studies under an integrated protocol for this IND have been completed, and the third one is underway.

In March 2009 and May 2009, we filed IND applications for DRL 21994 and DRL 21995, respectively, for the treatment of dyslipidemia. The Phase I study on DRL 21995 has been completed and the results are being analyzed for further development. We have not yet started the Phase I studies for DRL 21994. The decision with respect to the strategy for this molecule going forward will be made after completing the analysis of Phase I data for DRL 21995.

During the year ended March 31, 2010, we completed the lead optimization for DRL 19440 for the treatment of bacterial infections. We are currently evaluating the commercial and licensing opportunities for this molecule.

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. Phase I studies in India have been completed, although additional long-term toxicology studies are required in order to support Phase II clinical studies. Phase II studies are anticipated to commence once these additional toxicology studies are completed. The agreement is structured such that territories are split between us and ClinTec International, with milestones and royalties flowing between the parties based on successes achieved in their respective territories. In the quarter ended March 31, 2009, this agreement was restructured such that we ceased to be a joint development partner and Clintec International and its affiliates were given an option to in-license the product by a specific date. In order to exercise this option, ClinTec International was required to pay us an agreed initial amount plus certain milestone payments which were subject to achievement of specified development, launch and sales thresholds in the future. During the year ended March 31, 2010, ClinTec International advised us of their inability to arrange funding for such an in-licensing deal and, as a result, the joint development agreement was terminated and we retained all rights to DRF 1042. We are currently in the process of determining our future strategy for this molecule.

As part of our research program, we periodically enter into collaborations with leading institutions and laboratories. For example, 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 had agreed to fund the joint collaboration up to proof-of-concept and share the development expenses equally and profits at a predetermined ratio. A molecule candidate was identified that could be developed for COPD, and Phase I studies were conducted on this molecule. Based on the results, we decided not to pursue this molecule further and we subsequently terminated the collaborative research contract with Argenta.

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Our investments into research and development of NCEs and differentiated formulations have been consistently focused towards developing promising therapeutics. The compounds currently under active development in our pipeline include:

Compound	Therapeutic Area	Status	Development partner	Remarks
DRF 2593	Metabolic disorders	Phase III	Rheoscience	In Phase III clinical testing for type 2 diabetes
DRL 17822	Metabolic disorders/ Cardiovascular (lipid) disorders	Phase I	N/A	Targeting dyslipidemia and atherosclerosis
DRF 1042	Oncology	Phase I	N/A	Targeted for solid tumors
DRL 21994	Cardiovascular (lipid) disorders	Phase I	N/A	Targeted for dyslipidemia
DRL 21995	Cardiovascular (lipid) disorders	Phase I	N/A	Targeted for dyslipidemia
DRL 19440	Anti-infectives	Preclinical Development	N/A	Targeted for bacterial infections

Patents. The status of our patents filed and issued as of March 31, 2010 is summarized below:

Category	USPTO(1) (Filed)	USPTO(1) (Granted)	PCT(2) (Filed)	India (Filed)	India (Granted)
Anti-diabetic	85	14	61	117	44
Anti-cancer	18	10	14	45	15
Anti-bacterial	8	5	10	22	4
Anti-inflammation/Cardiovascular	40	19	28	21	1
Anti-ulcerant	1	1		1	
Miscellaneous	4	1	3	23	8
TOTAL	**156**	**50**	**116**	**229**	**72**

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

(2) PCT 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.

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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, which 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.

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 biologics 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.

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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, establishing 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 is 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.

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Promius Pharma

Promius Pharma is our subsidiary in Bridgewater, New Jersey in the United States of America focusing on our U.S. Specialty Business i.e., development and sales of branded specialty products. It has a portfolio of in-licensed patented dermatology products and off-patent cardiovascular products. It also has an internal pipeline of dermatology products that are in different stages of development. Promius Pharma s current portfolio contains innovative products for the treatment of seborrheic dermatitis, onychomycosis, acne, psoriasis and androgenic alopecia. It has commercialized three products: EpiCeram, which is a skin barrier emulsion for the treatment of atopic dermatitis; Scytera, which is foam for the treatment of psoriasis; and Promiseb, which is a cream for the treatment for seborrheic dermatitis. Over the last year, since the business has been launched, Promius Pharma has been able to enter into successful partnerships with companies such as Ceragenix, Foamix, Sinclair and Antares for in-licensing of products. It also leverages on our research, development and manufacturing facilities at Hyderabad, India. Promius Pharma also works with various third party research organizations in conducting product development, pre-clinical and clinical studies. Promius Pharma has approximately 50 sales representatives in the field. Its sales force targets physicians in the field of dermatology and is supported by a direct marketing team and a public relations program. In addition to its sales force, Promius Pharma s account managers also call on purchasing agents for drug wholesalers and chain drug stores.

The manufacturing of Promius Pharma s products has been outsourced to third party manufacturers based in the United States and Europe. The third party manufacturers are responsible for sourcing the raw materials required for manufacturing the products. However, in some cases we source the active pharmaceutical ingredients and supply them to the third party manufacturer. The logistics services for storage and distribution have also been outsourced to a third party service provider.

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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, 2010:

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%(10)
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%(10)
Dr. Reddy s Laboratories (U.K.) Limited	United Kingdom	100%(5)
Dr. Reddy s Laboratories (Proprietary) Limited	South Africa	60%(12)
Reddy Cheminor S.A.	France	100%(2)
OOO Dr. Reddy s Laboratories Limited	Russia	100%
Dr. Reddy s Bio-sciences Limited	India	100%
Promius Pharma LLC (formerly Reddy Pharmaceuticals, LLC)	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	100%
Dr. Reddy s Laboratories SA	Switzerland	100%
Eurobridge Consulting B.V.	Netherlands	100%(1)
OOO DRS LLC	Russia	100%(9)
Aurigene Discovery Technologies(Malaysia) Sdn, Bhd	Malaysia	100%(3)
Dr. Reddy s New Zealand Limited (formerly Affordable Healthcare Limited)	New Zealand	100%(10)
Macred India Private Limited	India	100%
Dr. Reddy s Laboratories Ilac Ticaret Limited	Turkey	100%
Dr. Reddy s SRL (formerly Jet Generici SRL)	Italy	100%(11)
Chirotech Technology Limited	United Kingdom	100%(5)

Dr. Reddy s Laboratories Louisiana LLC	U.S.A.	100%(6)
Dr. Reddy s Pharma SEZ Limited	India	100%
Dr. Reddy s Laboratories International SA	Switzerland	100%(8)

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

(2) Subsidiary under liquidation.

(3) Indirectly owned through Aurigene Discovery Technologies Limited.

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(4) Kunshan Rotam Reddy Pharmaceutical Co. Limited is a subsidiary as we hold a 51.33% stake; 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.

(9) Indirectly owned through Eurobridge Consulting B.V.

(10) Indirectly owned through Dr. Reddy s Laboratories

SA.

(11) Indirectly owned through Reddy Pharma Italia SPA

(12) We acquired the 40% non-controlling interest in August 2010.

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)	Certifications	Installed Capacity	Actual Production
Pharmaceutical Services and Active Ingredients				3,831(9)(12)	3,267(9)(12)
Bollaram, Andhra Pradesh, India	734,013	356,493	U.S. FDA and EUGMP	See(12) above	See(12) above
Bollaram, Andhra Pradesh, India	648,173	346,622	U.S. FDA and EUGMP	See(12) above	See(12) above
Bollaram, Andhra Pradesh, India	715,610	191,558	U.S. FDA and EUGMP	See(12) above	See(12) above
Jeedimetla, Andhra Pradesh, India	228,033	102,464	U.S. FDA and EUGMP	See(12) above	See(12) above
Miryalaguda, Andhra Pradesh, India	3,402,907	415,600	U.S. FDA and EUGMP	See(12) above	See(12) above
Pydibheemavaram, Andhra Pradesh, India	2,668,465	972,490	U.S. FDA and EUGMP	See(12) above	See(12) above
Pydibheemavaram, Andhra Pradesh, India (5)	792,786	54,338		See(12) above	See(12) above
Miyapur, Andhra Pradesh, India	113,256	85,736	ISO 27001: 2005 Information Security Management System	N/A	N/A
Jeedimetla, Andhra Pradesh, India	68,825	23,538	ISO 27001: 2005 Information Security Management System	N/A	N/A
Cuernavaca, Mexico	2,774,378	1,345,488	(1)	3,500(9)	2,000(9)
Mirfield, United Kingdom	1,785,960	653,400	ISO 9001:2008, MHRA (UK)	(13)	(13)

			and U.S. FDA		
Cambridge, United Kingdom (6)	9,383	9,383		N/A	N/A
Global Generics				5,581(7)(8)(14)	4,282(7)(14)
Bollaram, Andhra Pradesh, India	217,729	103,894	(2)	See(14) above	See(14) above

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Location	Approximate Area (Square feet)	Built up Area (Square feet)	Certifications	Installed Capacity	Actual Production
Bachupally, Andhra Pradesh, India	1,306,372	392,601	(3)	See above(14)	See above(14)
Yanam, Pondicherry, India	457,000	34,526		See above(14)	See above(14)
Baddi, Himachal Pradesh, India	786,261	148,711		See above(14)	See above(14)
Bachupally, Andhra Pradesh, India	798,982	41,891	(2)	13,852(10)	6,951(10)
Bachupally, Andhra Pradesh, India (5)	783,823	443,551	(4)	10,014(7)(11)	6,578(7)
Duvvada, Andhra Pradesh, India (5)	691,322	59,211		N/A(5)	N/A(5)
Beverley, East Yorkshire, United Kingdom	81,000	32,500	U.K. Medicine Control Agency, British Retail Consortium	N/A	N/A
Shreveport, Lousiana, United States	1,817,123	335,000	U.S. FDA	5,875(7)(11)	1,371(7)
Proprietary Products (11)					
Miyapur, Andhra Pradesh, India	445,401	153,577		N/A	N/A

(1) U.S. FDA; Therapeutic Goods Administration, Australia; Danish Medicines Agency, Denmark; U.S. Prescription Drug Marketing Act; Ministry of Health, Labour and Welfare, Japan; Secretaría de Salud y Asistencia, Mexico.

(2) Ministry of Health, Sudan; Ministry of

Health, Uganda; Brazilian National Agency of Sanitary Surveillance (ANVISA), Brazil; National Medicines Agency, Romania; Ministry of Health, Ukraine; GCC group of countries.

(3) 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;

Ministry of Health, Ukraine; Ministry of Health, Indonesia; Health Authorities, Nigeria; Ministry of Health, Kirgystan; World Health Organization, cGMP; ANVISA, Brazil; Medicines and Health Care Products Regulatory Agencies (MHRA), U.K., British Retail Consortium; Danish Medicines Agency.

(4) U.S. FDA; Medicines and Healthcare Products Regulatory Agency, U.K.; Ministry of Health, UAE; Medicines Control Council, South Africa; ANVISA, Brazil; National Medicines Agency, Romania; Danish Medicines Agency, Environmental Management System ISO 14001; Occupational Health and Safety

Management System OHSAS 18001; Quality Management System-ISO 9001:2000.

(5) 100% Export Oriented Units. However the income tax benefits under the Indian Income tax Act were exhausted as of the end of the year ended March 31, 2008 for our Generics facility at Bachupally.

(6) Leased facilities.

(7) Million units.

(8) On a single shift basis.

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(9) Tons.

(10) Grams.

(11) Three shift basis

(12) Represents the aggregate capacity and production for the first seven facilities listed in this table under PSAI.

(13) Capacity and production at this facility is not separately tracked.

(14) Represents the aggregate capacity and production for the first four facilities listed in this table under Global Generics.

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

Global Generics

We are in the process of constructing another manufacturing plant at Baddi, Himachal Pradesh, India, in addition to a plant which already existed at this location. The new plant is intended for the manufacture of injectable and ointment finished dosages for our Global Generics segment. The project at Baddi is initiated to take advantage of certain financial benefits, which include exemption from income tax for a specific period, offered by the Government of India to encourage industrial growth in the state of Himachal Pradesh, India.

We have completed construction of a facility at a Special Economic Zone located in Visakhapatnam, Andhra Pradesh, India for the manufacture of oral and injectable cytotoxic finished dosages for our Global Generics segment. In November 2009, the U.S. FDA audited this facility and declared that we had resolved all Form 483 open items, enabling us to initiate the manufacture and supply of products from this facility to the United States, subject to the approval of product specific ANDAs. As part of this visit, the U.S. FDA also inspected our plant near Hyderabad, India and made only a minor observation which was subsequently addressed. Also, in March 2010 the U.S. FDA conducted an audit of our facility in Shreveport, Louisiana, United States of America, and there were no Form 483 observations.

We are in the process of setting up a manufacturing facility in Medak District, Andhra Pradesh, India, where our property has been designated as a Special Economic Zone under the applicable laws of the Government of India.

Pharmaceutical Services and Active Ingredients

We are in the process of establishing a plant in a Special Economic Zone in Andhra Pradesh, India for the manufacture of APIs. The plant will be adjacent to an existing plant, in a newly acquired area of approximately 250 acres under a Pharmaceutical-Sector specific Special Economic Zone for fiscal benefits. The formal governmental approval for designating the property as a Special Economic Zone has been obtained. The project is proposed to be developed in a phased manner, subject to all regulatory approvals.

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

None.

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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, development and manufacturing services provided to innovator pharmaceutical and biotechnology companies, and license fees from our proprietary products segment.

The Chief Operating Decision Maker (CODM) evaluates our performance and allocates resources based on an analysis of various performance indicators by reportable segments. Our reportable segments are as follows:

Global Generics;
Pharmaceutical Services and Active Ingredients (PSAI); and
Proprietary Products.

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

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

Proprietary Products: This segment involves the discovery of new chemical entities for subsequent commercialization and out-licensing. It also involves our specialty pharmaceuticals business, which conducts sales and marketing operations for in-licensed and co-developed dermatology products.

The CODM reviews revenue and gross profit as the performance indicator. The measurement of each segment s revenues, expenses and assets is consistent with the accounting policies that are used in preparation of our consolidated financial statements.

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 Notes 2 and 3 to our consolidated financial statements.

Accounting estimates and judgments

While preparing financial statements in conformity with IFRS, we make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses, disclosure of contingent liabilities at the statement of financial position date and the reported amount of income 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.

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Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as below:

Assessment of functional currency for foreign operations;

Financial instruments;

Measurement of recoverable amounts of cash-generating units;

Provisions and contingencies;

Sales returns, rebates and charge back provisions;

Evaluation of recoverability of deferred tax assets;

Business combinations; and

Contingencies.

Revenue

Sale of goods

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

Revenue from domestic sales of generic products is recognized upon delivery of products to distributors by our clearing and forwarding agents. Revenue from domestic sales of active pharmaceutical ingredients and intermediates is recognized on delivery of products to customers, from our factories. Revenue from export sales is recognized when the significant risks and rewards of ownership of products are transferred to the customers, which occurs upon delivery of the products to the customers unless the terms of the applicable contract provide for specific revenue generating activities to be completed, in which case revenue is recognized once all such activities are completed.

Sales of generic products in India are made through clearing and forwarding agents to distributors. Significant risks and rewards in respect of ownership of generic products are transferred by us when the goods are delivered to distributors 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 our factories. Significant risks and rewards in respect of ownership of active pharmaceuticals ingredients are transferred by us on delivery of the products to the customers. Sales of active pharmaceutical ingredients and intermediates outside India are made directly to the end customers (generally distributors or formulations manufacturers) from the parent company or its consolidated subsidiaries. Significant risks and rewards in respect of ownership of active pharmaceuticals ingredients are transferred by us upon delivery of the products to the customers, unless the terms of the applicable contract provide for specific revenue generating activities to be completed, in which case revenue is recognized once all such activities are completed.

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We have entered into marketing arrangements with certain marketing partners for sale of goods in certain overseas territories. Under such arrangements, we sell generic products to the marketing partners at a price agreed upon in the arrangement and are also entitled to a profit share which is over and above the agreed price, on the basis of the marketing partner s ultimate net sale proceeds.

Revenue under profit sharing arrangements is recognized when our business partners send us a valid confirmation of the amounts that are owed to us. Arrangements with our business partners typically require the business partner to provide confirmation on inventory status and net sales computations for the products covered under the arrangement, together with an indicative date for payment. Such confirmation from the business partners is typically received in the quarter following the quarter in which the actual underlying sales of the products were made by them. The collection of the profit share becomes probable, and a reliable measurement of the profit share becomes possible, only after the receipt of such confirmation. Accordingly, the timing of revenue recognition corresponds with the receipt of such confirmation. Due to the immateriality of any individual profit share payment, we generally verify the statements received from our business partners by performing overall confirmatory procedures, such as ensuring monthly availability of stock statements, and certain other analytical procedures. Additionally, as part of our arrangements, we typically reserve the right to have third parties conduct audits to verify the statements received from our business partners.

Set forth below are the main items that accounted for a reduction in our gross revenue for the year ended March 31, 2010. The following discussion refers to the operations of our U.S. Generics business. It is in our U.S. Generics business that this particular feature of the pharmaceutical industry (i.e., returns, chargebacks, rebates, discounts and Medicaid payments) is significant to our financial statements. The estimates of gross-to-net adjustments for our operations in India and other countries outside of the U.S. relate mainly to sales return allowances in all such operations and certain rebates to healthcare insurance providers specific to our German operations. The pattern of such sales return allowances is generally consistent with our gross sales. In Germany, the rebates to healthcare insurance providers mentioned above are contractually fixed in nature and do not involve significant estimations by us.

Chargebacks. Chargebacks are issued to wholesalers for the difference between our invoice price to the wholesaler and the contract price through which the product is resold in the retail part of the supply chain. The information that we consider for establishing a chargeback accrual includes the historical average chargeback rate over a period of time, current contract prices with wholesalers and other customers, and estimated inventory holding by the wholesaler. With this methodology, we believe that the results are more realistic and closest to the potential chargeback claims that may be received in the future period relating to inventory on which a claim is yet to be received as at the end of the reporting period. In addition, as part of our books closure process, a chargeback validation is performed in which we track and reconcile the volume of sold inventory for which we should carry an appropriate provision for chargeback. We procure the inventory holding statements and data through an electronic data interface with our wholesalers (representing approximately 90% of the total sales volumes on which chargebacks are applicable) as part of this reconciliation. On the basis of this volume reconciliation, chargeback accrual is validated. For the chargeback rate computation, we consider different contract prices for each product across our customer base. This chargeback rate is adjusted (if necessary) on a periodic basis for expected future price reductions.

Rebates. Rebates (direct and indirect) are generally provided to customers as an incentive to stock and sell our products. Rebate amounts are based on a customer s purchases made during an applicable period. Rebates are paid to wholesalers, chain drug stores, health maintenance organizations or pharmacy buying groups under a contract with us. We determine our estimates of rebate accruals primarily based on the contracts entered into with our wholesalers and other direct customers and the information received from them for secondary sales made by them. For direct rebates, liability is accrued whenever we invoice to direct customers. For indirect rebates, the accruals are based on a representative weighted average percentage of the contracted rebate amount applied to inventory sold and delivered by us to wholesalers or other direct customers.

Sales Return Allowances. We account for sales returns by recording a provision based on our estimate of expected sales returns. We deal in various products and operate in various markets. Accordingly, our

estimate of sales returns is determined primarily by our experience in these markets. In respect of established products, we determine an estimate of sales returns provision primarily based on historical experience of such sales returns. Additionally, other factors that we consider in determining the estimate include levels of inventory in the distribution channel, estimated shelf life, product discontinuances, price changes of competitive products, and introduction of competitive new products, to the extent each of these factors impact our business and markets. We consider all these factors and adjust the sales return provision to reflect our actual experience. With respect to new products introduced by us, those have historically been either extensions of an existing product line where we have historical experience or in a general therapeutic category where established products exist and are sold either by us or our competitors.

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We have not yet introduced products in a new therapeutic category where the sales returns experience of such products by us or our competitors (as we understand based on industry publications) is not known. The amount of sales returns for our newly launched products have not historically differed significantly from sales returns experience of the then current products marketed by us or our competitors (as we understand based on industry publications). Accordingly, we do not expect sales returns for new products to be significantly different from expected sales returns of current products. We evaluate sales returns of all our products at the end of each reporting period and record necessary adjustments, if any.

Medicaid Payments. We estimate the portion of our sales that may get dispensed to customers covered under Medicaid programs based on the proportion of units sold in the previous two quarters for which a Medicaid claim could be received as compared to the total number of units sold in the previous two quarters. The proportion is based on an analysis of the actual Medicaid claims received for the preceding four quarters. In addition, we also apply the same percentage on the derived estimated inventory sold and delivered by us to our wholesalers and other direct customers to arrive at the potential volume of products on which a Medicaid claim could be received. We use this approach because we believe that it corresponds to the approximate six month time period it takes for us to receive claims from the various Medicaid programs. After estimating the number of units on which a Medicaid claim is to be paid, we use the latest available Medicaid reimbursement rate per unit to calculate the Medicaid accrual. In the case of new products, accruals are done based on specific inputs from our marketing team or data from the publications of IMS Health, a company which provides information on the pharmaceutical industry.

Shelf Stock Adjustments. Shelf stock adjustments, which are common in our industry, are given to compensate our customers for falling prices due to additional competitive products. These take the form of contractually agreed price protection or shelf stock adjustment clauses in our agreements with direct customers. Such shelf stock adjustments are accrued and paid when the prices of certain products decline as a result of increased competition upon the expiration of limited competition or exclusivity periods.

Cash Discounts. We offer cash discounts to our customers, generally at 2% of the gross sales price, as an incentive for paying within invoice terms, which generally range from 45 to 60 days. Accruals for such cash discounts do not involve any significant variables, and the estimates are based on the gross sales price and agreed cash discount percentage at the time of invoicing.

We believe our estimation processes are reasonable methods of determining accruals for the gross-to-net adjustments. Chargeback accrual accounts for the highest element among the gross-to-net adjustments, and constituted approximately 85% of such gross-to-net adjustments for our U.S. Generics business for the year ended March 31, 2010. For the purpose of the following discussion, we are therefore restricting our explanations to this specific element. While chargeback accruals depend on multiple variables, the most pertinent variables are our estimates of inventories on which a chargeback claim is yet to be received and the unit price at which the chargeback will be processed. To determine the chargeback accrual applicable for a reporting period, we perform the following procedures to calculate these two variables:

(a) Estimated inventory Inventory volumes on which a chargeback claim that is expected to be received in the future are determined using the validation process and methodology described above (see Chargebacks above). When such a validation process is performed, we note that the difference represents an immaterial variation. Therefore, we believe that our estimation process in regard to this variable is reasonable.

(b) Unit pricing rate As at any point of time, inventory volumes on which we carry our chargeback accrual represents approximately 1.5 months of sales volumes. Therefore, the sensitivity of price changes on our chargeback accrual relates to only such volumes. Assuming that the chargebacks were processed within such period, we analyzed the impact of changes of prices for the periods beginning March 31, 2010 and 2009, respectively, and ending April 30, 2010 and 2009, respectively, on our estimated inventory levels computed based on the methodology mentioned above (see Chargebacks above). We noted that the impact on net sales on account of such price variation was negligible.

In view of this, we believe that the calculations are not subject to a level of uncertainty that warrants a probability-based approach. Accordingly, we believe that we have been reasonable in our estimates for future

chargeback claims and that the amounts of reversals or adjustments made in the current period pertaining to the previous year s accruals are immaterial. Further, this data is not determinable except on occurrence of specific instances or events during a period, which warrant an adjustment to be made for such accruals. A roll-forward for each major accrual for our U.S. Generics operations is presented in Item 5.A. (Operating Results) below for our fiscal years ended March 31, 2010 and March 31, 2009, respectively.

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Returns primarily relate to expired products which the customer has the right to return for a period of 12 months following the expiration date of such product. Such returned products are destroyed and credit notes are issued to the customer for the products returned. We account for sales returns accrual by recording an allowance for sales returns concurrent with the recognition of revenue at the time of a product sale. This allowance is based on our estimate of expected sales returns. We deal in various products and operate in various markets. Accordingly, our estimate of sales returns is determined primarily by our historical experience in the markets in which we operate. With respect to established products, we consider our historical experience of sales returns, levels of inventory in the distribution channel, estimated shelf life, product discontinuances, price changes of competitive products, and the introduction of competitive new products, to the extent each of these factors impact our business and markets. With respect to new products introduced by us, such products have historically been either extensions of an existing line of product where we have historical experience or in therapeutic categories where established products exist and are sold either by us or our competitors.

A roll-forward for each major accrual for our U.S. Generics operations is presented below for our fiscal years ended March 31, 2008, March 31, 2009 and March 31, 2010, respectively:

(*All Values in U.S.$ Millions*)

Particulars	**Chargebacks**	**Rebates**	**Medicaid**	**Sales Return**
Beginning balance: April 1, 2007	39	25	5	9
Current provisions relating to sales in current year	327	55	3	3
Provisions and adjustments relating to sales in prior years	*	(4)	2	(4)
Credits and payments**	(307)	(50)	(6)	(2)
Ending balance: March 31, 2008	59	26	4	6

Particulars	**Chargebacks**	**Rebates**	**Medicaid**	**Sales Return**
Beginning Balance: April 1, 2008	59	26	4	6
Current provisions relating to sales in current year	440	47	4	5
Provisions and adjustments relating to sales in prior years	*	(5)	2	
Credits and payments**	(441)	(38)	(4)	(3)
Balance: March 31, 2009	58	30	6	8

Particulars	**Chargebacks**	**Rebates**	**Medicaid**	**Sales Return**
Beginning Balance: April 1, 2009	58	30	6	8
Current provisions relating to sales in current year	578	57	9	5
Provisions and adjustments relating to sales in prior years	*	2	(3)	(1)
Credits and payments**	(580)	(68)	(9)	(4)
Balance: March 31, 2010	56	21	3	8

* Currently, we do not separately track

provisions and adjustments, in each case to the extent relating to prior years for chargebacks. However, the adjustments are expected to be non-material. The volumes used to calculate the closing balance of chargebacks represent an average 1.5 months equivalent of sales, which corresponds to the pending chargeback claims yet to be processed.

** Currently, we do not separately track the credits and payments, in each case to the extent relating to prior years for chargebacks, rebates, medicaid payments or sales returns.

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Services

Revenue from services rendered, which primarily relate to contract research, is recognized in profit or loss as the underlying services are performed. Upfront non-refundable payments received under these arrangements are deferred and recognized as revenue over the expected period over which the related services are expected to be performed.

Export entitlements

Export entitlements from government authorities are recognized in profit or loss when the right to receive credit as per the terms of the scheme is established in respect of the exports made by us, and where there is no significant uncertainty regarding the ultimate collection of the relevant export proceeds.

Financial instruments

Non- derivative financial instruments

Non-derivative financial instruments consists of investments in mutual funds, equity and debt securities, trade receivables, certain other assets, cash and cash equivalents, loans and borrowings, and trade payables and certain other liabilities.

Non-derivative financial instruments are recognized initially at fair value. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Cash and cash equivalents

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

Held-to-maturity investments

If we have the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held to maturity financial assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to the initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment losses. As at March 31, 2010, we did not have any held-to-maturity investments.

Available-for-sale financial assets

Our investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized directly in other comprehensive income/(loss) and presented within equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred to profit or loss.

Financial assets at fair value through profit or loss

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

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Others

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

Derivative financial instruments

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

Cash flow hedges

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

Economic hedges

We do not apply hedge accounting to certain derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognized in profit or loss as part of foreign currency gains and losses. We have adopted the recent amendments made to IFRS No. 7 *Financial Instruments Disclosure*, with respect to the disclosure of the fair value hierarchy for financial instruments that are measured at fair value as at the reporting date in the statement of financial position, and accordingly necessary disclosures have been made in these consolidated financial statements. This being the first year of application of these requirements, comparative disclosures have not been provided.

Foreign currency

Functional currency

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

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

In respect of subsidiaries whose operations are self contained and integrated within their respective countries/regions, the functional currency has been determined to be the local currency of those countries/regions.

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Foreign currency transactions

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

Foreign operations

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

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

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of the net investment in the foreign operation and are recognized in other comprehensive income/(loss) presented within equity.

Business combinations

Business combinations occurring on or after April 1, 2009 are accounted for by applying the acquisition method. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, we take into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which control is transferred to the acquiror. Judgment is applied in determining the acquisition date and determining whether control is transferred from one party to another.

We measure goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. Consideration transferred includes the fair values of the assets transferred, liabilities incurred by us to the previous owners of the acquiree, and equity interests issued by us. Consideration transferred also includes the fair value of any contingent consideration. A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably. We measure any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree. Transaction costs that we incur in connection with a business combination, such as finder s fees, legal fees, due diligence fees, and other professional and consulting fees are expensed as incurred.

Intangible assets

Goodwill

Goodwill arising upon the acquisition of subsidiaries represents the fair value of the consideration, including the recognized amount of any non-controlling interest in the acquirer, less the net recognized amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities assumed, all measured as of the acquisition date. Such goodwill is included in intangible assets. When the fair value of the consideration paid is less than the fair value of the net assets acquired, a bargain purchase gain is recognized immediately in profit or loss.

Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders, and therefore no goodwill is recognized as a result of such transactions.

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Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment and any impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying value of the equity accounted investee.

Research and development

Expenditures on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding are recognized in profit or loss when incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if:

development costs can be measured reliably,
the product or process is technically and commercially feasible,
future economic benefits are probable and ascertainable, and
we intend to complete development and to use or sell the asset, and have sufficient resources to do so.

The expenditures capitalized include the cost of materials and other costs directly attributable to preparing the asset for its intended use. Other development expenditures are recognized in profit or loss as incurred.

Our internal drug development expenditures are capitalized only if they meet the recognition criteria as mentioned above. Where regulatory and other uncertainties are such that the criteria are not met, the expenditures are recognized in profit or loss as incurred. This is almost invariably the case prior to approval of the drug by the relevant regulatory authority. Where the recognition criteria are met, however, intangible assets are capitalized and amortized on a straight-line basis over their useful economic lives from product launch. As of March 31, 2010, no internal drug development expenditure amounts have met the recognition criteria.

In conducting our research and development activities related to NCE and proprietary products, we seek to optimize our expenditures and to limit our risk exposures. Most of our current research and development projects related to NCEs and proprietary products are at an early discovery phase where project costs are insignificant and cannot be directly identified to any specific project, as these costs generally represent staff and common facility costs. These early development stage exploratory projects are numerous and are characterized by uncertainty with respect to timing and cost of completion. At such time as a research and development project related to an NCE or proprietary product progresses into the more costly clinical study phases, where the costs can be tracked separately, such project is considered to be significant if:

(a) it is expected to account for more than 10% of our total research and development costs; and
(b) the costs and efforts to develop the project can be reasonably estimated and the product resulting from the project has a high probability of launch.

Historically, none of our development projects have met the significance thresholds listed above.

A substantial portion of our current research and development activities relates to the development of bio-equivalent generic products, which do not require clinical trials to be conducted prior to the filing by us of applications with regulatory authorities to allow the marketing and sale of such products. Our total research and development costs for the year ended March 31, 2010 were Rs. 3,793 million, which was approximately 5% of our total revenue for the year. The amounts spent on research and development related to our bio-equivalent products for the years ended March 31, 2010, 2009 and 2008 represented approximately 83%, 85% and 78%, respectively, of our total research and development expenditures.

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For each of our bio-equivalent generic product research and development projects, the timing and cost of completion varies depending on numerous factors, including among others: the intellectual property patented by the innovator for the applicable product; the patent regimes of the countries in which we seek to market the product; our development strategy for such product; the complexity of the molecule for such product; and the time required to address any development challenges that arise during the development process. For any particular bio-equivalent generic product, these factors and other product launch requirements may vary across the numerous geographies in which we seek to market the product. In addition, bio-equivalent research and development projects often may relate to a number of different therapeutic areas. At a particular point of time, we tend to have a very high number of bio-equivalent generic product research and development projects ongoing simultaneously, in various developmental stages, with the exact number of such active projects changing regularly. As a result, we believe it would be impractical for us to state the exact number of ongoing projects and the estimated timing or cost to complete such projects.

Payments to in-license products and compounds from third parties generally taking the form of up-front payments and milestones are capitalized. Our criteria for capitalization of such assets are consistent with the guidance given in paragraph 25 of International Accounting Standard 38 (IAS 38) (i.e., receipt of economic benefits out of the separately purchased transaction is considered to be probable). Historically, wherever we have purchased or in-licensed products, either regulatory approval for the products were available from our counterparties or there were other contractual terms providing for a refund should the regulatory approvals not be received.

The amortization of such assets is generally on a straight-line basis, over their useful economic lives. If we become entitled to a refund under the terms of an in-license contract, the amount is recognized when the right to receive the refund is established. In such an event, any consequential difference as compared to the carrying value of the asset is recognized in our Statement of Income.

Intangible assets relating to products in development, other intangible assets not available for use and intangible assets having indefinite useful life are subject to impairment testing at each statement of financial position date. All other intangible assets are tested for impairment when there are indications that the carrying value may not be recoverable. Any impairment losses are recognized immediately in the profit or loss.

De-recognition of intangible assets

Intangible assets are de-recognized either on their disposal or where no future economic benefits are expected from their use or disposal. Losses arising on such de-recognition are recorded in profit or loss, and are measured as the difference between the net disposal proceeds, if any, and the carrying amount of respective assets as on the date of de-recognition.

Other intangible assets

Other intangible assets that are acquired by us, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses. Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate.

Amortization

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

Impairment

Financial assets

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

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

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Individually significant financial assets are tested for impairment on an individual basis.

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

Non-financial assets

The carrying amounts of our non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset s recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives, or that are not yet available for use, an impairment test is performed each year at March 31.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

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

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

Goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

Income tax

Income tax expense consists of current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

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

Litigations

We are involved in disputes, lawsuits, claims, governmental and/or regulatory inspections, inquiries, investigations and proceedings, including patent and commercial matters that arise from time to time in the ordinary course of business. Most of the claims involve complex issues. We assess, in consultation with our counsel, the need to make a provision for a liability for such claims and record a provision when we determine that a loss related to a matter is both probable and reasonably estimable.

Because litigation and other contingencies are inherently unpredictable, our assessment can involve judgments about future events. Often, these issues are subject to uncertainties and therefore the probability of a loss, if any, being sustained and an estimate of the amount of any loss are difficult to ascertain. We also believe that disclosure of the amount of damages sought by plaintiffs, if that is known, would not be meaningful with respect to those legal proceedings. This is due to a number of factors, including: the stage of the proceedings (in many cases trial dates have not been set) and the overall length and extent of pre-trial discovery; the entitlement of the parties to an action to appeal a decision; clarity as to theories of liability; damages and governing law; uncertainties in timing of litigation; and the possible need for further legal proceedings to establish the appropriate amount of damages, if any.

Consequently, for a majority of these claims, it is not possible to make a reasonable estimate of the expected financial effect, if any, that will result from ultimate resolution of the proceedings. In these cases, we disclose information with respect to the nature and facts of the case.

Other provisions

We recognize a provision if, as a result of a past event, we have a present legal or constructive obligation that can be estimated reliably, and it is probable (i.e., more likely than not) that an outflow of economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

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Restructuring

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

Onerous contracts

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

Reimbursement rights

Expected reimbursements for expenditures required to settle a provision are recognized only when receipt of such reimbursements is virtually certain. Such reimbursements are recognized as a separate asset in the statement of financial position, with a corresponding credit to the specific expense for which the provision has been made.

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

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

(Rs. in millions)

	For the Year Ended March 31,					
	2008		**2009**		**2010**	
	Revenues	**Revenues % to total**	**Revenues**	**Revenues % to total**	**Revenues**	**Revenues % to total**
Global Generics	Rs. 32,872	66	Rs. 49,790	72	Rs. 48,606	69
Pharmaceutical Services and Active Ingredients	16,623	33	18,758	27	20,404	29
Proprietary Products	190		294		513	1
Others	321	1	599	1	754	1
Total	**Rs. 50,006**	**100**	**Rs. 69,441**	**100**	**Rs. 70,277**	**100**

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

(Rs. in millions)

	For the Year Ended March 31,					
	2008		**2009**		**2010**	
	Gross profit	**Gross profit % to Revenue**	**Gross profit**	**Gross profit % to Revenue**	**Gross profit**	**Gross profit % to Revenue**
Global Generics	Rs. 19,567	60	Rs. 30,448	61	Rs. 29,146	60
Pharmaceutical Services and Active Ingredients	5,645	34	5,595	30	6,660	33
Proprietary Products	109	57	196	67	396	77
Others	87	27	261	44	138	18
Total	**Rs. 25,408**	**51**	**Rs. 36,500**	**53**	**Rs. 36,340**	**52**

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 comparable period in the previous years.

	Percentage of Sales For the Year Ended March 31,			**Percentage Increase/(Decrease)**	
	2008	**2009**	**2010**	**2008 to 2009**	**2009 to 2010**
Revenues	100	100	100	39	1
Gross profit	**51**	**53**	**52**	**44**	
Selling, general and administrative expenses	34	30	32	25	7
Research and development expenses	7	6	5	14	(6)
	6	5	5	5	9

Impairment loss on other intangible assets					
Impairment loss on goodwill		16	7	NC	NC
Other (income)/expense, net	(1)		(1)	NC	NC
Results from operating activities	**5**	**(4)**	**4**	**NC**	**NC**
Finance income/(expense), net	1	(2)		NC	NC
Profit/(loss) before income taxes	**6**	**(6)**	**4**	**NC**	**NC**
Income tax (expense)/benefit, net	2	(2)	(1)	NC	NC
Profit/(loss) for the period	**8**	**(8)**	**3**	**NC**	**NC**

NC = Not comparable

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Fiscal Year Ended March 31, 2010 Compared to Fiscal Year Ended March 31, 2009

Revenues

Our overall revenues increased by 1% to Rs.70,277 million for the year ended March 31, 2010, as compared to Rs.69,441 million for the year ended March 31, 2009. Excluding revenues from sumatriptan (the authorized generic version of Imitrex®, for which we had exclusivity in the market for four months during the year ended March 31, 2009), our total revenues grew by 9% to Rs.67,734 million in the year ended March 31, 2010, as compared to Rs.62,253 million in the year ended March 31, 2009. For the year ended March 31, 2010, 82% of our total revenue was derived from markets outside of India, with 18% of our total revenue derived from India. The allocation of revenues among geographies changed considerably from the year ended March 31, 2009 to the year ended March 31, 2010, primarily due to decreased revenues from sales of sumatriptan in the United States. As a result, North America (the United States and Canada) accounted for 30% of our total revenues in the year ended March 31, 2010, as compared to 35% of our total revenues in the year ended March 31, 2009. Europe accounted for 24% of our total revenues for the year ended March 31, 2010, as compared to 26% for the year ended March 31, 2009. Russia and other countries of the former Soviet Union accounted for 13% of our total revenues for the year ended March 31, 2010, as compared to 11% for the year ended March 31, 2009. India accounted for 18% of our total revenues during the year ended March 31, 2010, as compared to 17% during the year ended March 31, 2009.

Revenues from our Global Generics segment were Rs.48,606 million for the year ended March 31, 2010, as compared to Rs.49,790 million for the year ended March 31, 2009. This decrease was primarily due to a decrease in revenues from sales of sumatriptan in the United States, from Rs.7,188 million for the year ended March 31, 2009 to Rs.2,543 million for the year ended March 31, 2010. This decrease in sumatriptan revenues was partially offset by increased revenues from our other markets, including India and Russia.

Revenues from our Pharmaceutical Services and Active Ingredients segment increased by 9% to Rs.20,404 million during the year ended March 31, 2010, as compared to Rs.18,758 million during the year ended March 31, 2009. The increase primarily resulted from growth in revenues from Europe by 8% and from our Rest of the World markets (i.e., all markets other than North America, Europe, Russia and other countries of the former Soviet Union and India) by 17%.

For the year ended March 31, 2010, on an average basis, the Indian rupee depreciated by approximately 3% against the U.S. dollar compared to the average exchange rate for the year ended March 31, 2009. Excluding the impact of changes in foreign currency exchange rates and changes in the mark to market value of cash-flow hedges (i.e., derivative contracts to hedge against foreign currency risks), our total revenues fell by 1% to Rs.69,968 million for the year ended March 31, 2010, as compared to Rs.70,896 million for the year ended March 31, 2009.

Our provision for sales returns during the year ended March 31, 2010 was Rs.932 million, as compared to Rs.663 million during the year ended March 31, 2009. This increase in our provision was primarily due to greater than expected returns processed by us during the year ended March 31, 2010, as compared to our earlier estimates. Consistent with our accounting policy for creating provisions for sales returns (discussed in Note 3.l. of our consolidated financial statements), we periodically assess the adequacy of our allowance for sales returns based on the criteria discussed in our Critical Accounting Policies, as well as sales returns actually processed during the year ended March 31, 2010. As we progressed through the year ended March 31, 2010, we noted an increase in our returns and, accordingly, re-evaluated our estimate. The increase in sales returns was partly attributed to a one-time return in the U.S. market due to a product odor issue. In addition, the increase in sales returns was also significantly due to growth in our sales volumes and revenues. There was a 9% increase in our total revenues for the year ended March 31, 2010 over the year ended March 31, 2009, excluding the sales of sumatriptan. This increase in returns is reflected both in our higher incremental provision created and higher actual returns processed in the year ended March 31, 2010 as compared to the year ended March 31, 2009. For further information regarding our sales return provisions, see Note 22 to our consolidated financial statements.

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Revenues Segment analysis

Global Generics

For the year ended March 31, 2010, our Global Generics segment accounted for 69% of our total revenues, as compared to 72% for the year ended March 31, 2009. Revenues in this segment decreased by 2% to Rs.48,606 million for the year ended March 31, 2010, as compared to Rs.49,790 million for the year ended March 31, 2009. Excluding the impact of movements in foreign currency exchange rates and changes in mark to market values of cash-flow hedges (i.e., derivative contracts to hedge against foreign currency risks), the revenues of this segment decreased by 3% to Rs.48,838 million for the year ended March 31, 2010, as compared to Rs.50,590 million for the year ended March 31, 2009.

Revenues from North America (the United States and Canada) in this segment decreased by 15% to Rs.16,817 million for the year ended March 31, 2010, as compared to Rs.19,843 million for the year ended March 31, 2009. This decrease was primarily due to the launch of sumatriptan, our authorized generic version of Imitrex®, in the year ended March 31, 2009, which generated revenues of Rs.7,188 million for the year ended March 31, 2009, as compared to Rs.2,543 million for the year ended March 31, 2010. Excluding the revenues from sumatriptan, our revenues in this segment from North America (the United States and Canada) grew by 13% to Rs.14,274 million for the year ended March 31, 2010, as compared to Rs. 12,655 million for the year ended March 31, 2009. The increase was mainly due to new product launches, including nateglinide, omeprazole magnesium (OTC) and fluoxetine DR, which generated revenues of Rs.763 million during the year ended March 31, 2010. Revenues from our OTC business in this segment increased by 59% to Rs.1,575 million for the year ended March 31, 2010, as compared to Rs.992 million for the year ended March 31, 2009.

Revenues from India constituted 21% of this segment s total revenues for the year ended March 31, 2010, as compared to 17% for the year ended March 31, 2009. Revenues in this segment from India increased by 20% to Rs.10,158 million for the year ended March 31, 2010, as compared to Rs.8,478 million for the year ended March 31, 2009. This growth of 20% was primarily attributable to a 6% increase in revenues (amounting to Rs.489 million) due to new product launches and a 16% increase in sales volumes of key brands (such as Omez and Omez DR, our brands of omeprazole, Razo and Razo D, our brand of rabeprazole, Reditux, our brand of rituximab, and Nise, our brand of nimesulide), which was partially offset by a decrease of 2% in average prices. Revenues from Europe in this segment decreased by 19% to Rs.9,643 million for the year ended March 31, 2010, as compared to Rs.11,886 million for the year ended March 31, 2009. Revenues of betapharm decreased to Rs.7,298 million for the year ended March 31, 2010, as compared to Rs.9,854 million for the year ended March 31, 2009. This decrease was primarily due to lower sales volumes and severe pricing pressures resulting from the rapid shift of the German generic pharmaceutical market towards a tender (i.e., competitive bidding) based supply model.

Revenues from Russia in this segment increased by 25% to Rs.7,232 million for the year ended March 31, 2010, as compared to Rs.5,803 million for the year ended March 31, 2009. This increase was largely on account of an increase in the prices of our key brands in the Russian market.

Revenues from other countries of the former Soviet Union in this segment increased by 4% to Rs.1,887 million for the year ended March 31, 2010, as compared to Rs.1,821 million for the year ended March 31, 2009.

Revenues from other markets in this segment increased by 46% to Rs.2,869 million for the year ended March 31, 2010, as compared to Rs.1,960 million for the year ended March 31, 2009. This increase was primarily due to increases in revenues from Venezuela, New Zealand and South Africa.

Pharmaceutical Services and Active Ingredients (PSAI)

For the year ended March 31, 2010, our PSAI segment accounted for 29% of our total revenues, as compared to 27% for the year ended March 31, 2009. Revenues in this segment increased by 9% to Rs.20,404 million for the year ended March 31, 2010, as compared to Rs.18,758 million for the year ended March 31, 2009. Excluding the impact of movements in foreign currency exchange rates and changes in mark to market values of cash-flow hedges (i.e., derivative contracts to hedge against foreign currency risks), the revenues of this segment increased by 2% to Rs.19,875 million for the year ended March 31, 2010, as compared to Rs.19,412 million for the year ended March 31, 2009.

Revenues in this segment from Europe increased by 8% to Rs.6,652 million for the year ended March 31, 2010, as compared to Rs.6,160 million for the year ended March 31, 2009. The increase was primarily due to increased sales of

gemcitabine, clopidogrel and montelukast, all products that we were able to launch ahead of our competitors, which was partially offset by a decrease in the prices of our other products in Europe.

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Revenues in this segment from North America (the United States and Canada) decreased by 5% to Rs.3,673 million for the year ended March 31, 2010, as compared to Rs.3,875 million for the year ended March 31, 2009. The decrease was primarily due to a decrease in sales volumes of naproxen, finasteride, ibuprofen and montelukast, which was partially offset by an increase in sales volumes of certain of our other products.

Revenues in this segment from our Rest of the World markets (i.e., all markets other than North America, Europe, Russia and other countries of the former Soviet Union and India) increased by 17% to Rs.7,433 million for the year ended March 31, 2010, as compared to Rs.6,340 million for the year ended March 31, 2009. This increase was primarily due to an increase in sales from Israel, Turkey, Brazil and Japan.

During the year ended March 31, 2010, revenues from India accounted for 13% of our revenues from this segment. Revenues in this segment from India increased by 11% to Rs.2,646 million for the year ended March 31, 2010, as compared to Rs.2,383 million for the year ended March 31, 2009, largely due to increases in prices of our products.

Gross Margin

Total gross margin as a percentage of total revenues was 52% for the year ended March 31, 2010, as compared to 53% for the year ended March 31, 2009. Total gross margin decreased to Rs.36,340 million for the year ended March 31, 2010, from Rs.36,500 million for the year ended March 31, 2009. The decrease in gross margin was primarily due to a decrease in revenues from sales of sumatriptan, which generated a significantly higher margin than the average margin for our products.

Global Generics

Gross margin of this segment decreased to 60% of this segment s revenues for the year ended March 31, 2010, as compared to 61% of this segment s revenues for the year ended March 31, 2009. Excluding the impact of derivative instruments designated as cash-flow hedges (i.e., derivative contracts to hedge against foreign currency risks), the gross margin of this segment was 60% of this segment s revenues for the year ended March 31, 2010, as compared to 61.8% of this segment s revenues for the year ended March 31, 2009. This decrease was due to lower revenues from sumatriptan, our authorized generic version of Imitrex®, which was launched during the year ended March 31, 2009 and for which exclusivity ended in August 2009, partially offset by margin improvements in this segment s Russian sales and margins for new products launched in North America business.

Pharmaceutical Services and Active Ingredients

Gross margin of this segment increased to 33% of this segment s revenues for the year ended March 31, 2010, as compared to 30% of this segment s revenues for the year ended March 31, 2009. Excluding the impact of cash-flow hedges (i.e., derivative contracts to hedge against foreign currency risks), the gross margin of this segment was 32.5% of this segment s revenues for the year ended March 31, 2010, as compared to 33% of this segment s revenues for the year ended March 31, 2009. This increase in gross margin was primarily due to cost improvement initiatives taken in this segment s business, which was partially offset by severe pricing pressures in this segment s business resulting from increased competition.

Selling, general and administrative expenses

Selling, general and administrative expenses increased by 7% to Rs.22,505 million for the year ended March 31, 2010, as compared to Rs.21,020 million for the year ended March 31, 2009. During the year ended March 31, 2010, we recorded a one-time charge of Rs.885 million related to termination benefits payable to certain employees in Germany. During the year ended March 31, 2010, we also closed our research facility in Atlanta, Georgia in the United States of America, and announced a re-organization of our North American Generics business in Charlotte, North Carolina in the United States of America, which triggered one time closure related costs. Our selling and administrative expenses otherwise remained flat, primarily due to increases in salaries and inflation in our India business, offset by a decrease in overall costs in Germany due to restructuring.

Amortization expenses were Rs.1,479 million during the year ended March 31, 2010, as compared to Rs.1,503 million during the year ended March 31, 2009.

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Research and development expenses

Research and development expenses decreased by 6% to Rs.3,793 million during the year ended March 31, 2010, as compared to Rs.4,037 million during the year ended March 31, 2009. As a percentage of our total revenues, our research and development expenditures decreased to 5% during the year ended March 31, 2010, as compared to 6% during the year ended March 31, 2009. The decrease in research and development expenses was due to lower project expenses and bio-study costs, as the number of projects that reached completion were lower as compared to the year ended March 31, 2009. In the year ended March 31, 2010, we also calibrated our, research and development expenditures processes to reduce our investments in projects where expenditures were high and relative risk was greater.

Impairment loss on other intangible assets and goodwill

During the year ended March 31, 2009, there were significant changes in the German generic pharmaceutical market that impacted the operations of our German subsidiary betapharm. The biggest change was the shift to a tender based supply model within the German generic pharmaceutical market, as most prominently evidenced by the announcement of a large competitive bidding (or tender) process by the Allgemeine Ortskrankenkassen (AOK), the largest German statutory health insurance fund (SHI fund). In addition, there was a continuing decrease in prices of pharmaceutical products and an increased quantity of discount contracts being negotiated with other SHI funds.

In the AOK tender, we were awarded 8 products (with 33 contracts) covering AOK-insured persons in various regions within Germany, which represented 17% of the overall volume of the products covered by the AOK tender. betapharm was among the top three companies in terms of number of contracts awarded. While our future sales volumes are expected to increase for the products awarded to us under the AOK tender, we expect that our overall profit margins under the AOK tender arrangement will be significantly lower due to decreased prices per unit of product. Also, the products awarded to us in the AOK tender did not include products that we consider to be our key products.

Due to these developments, as at March 31, 2009, we tested the carrying value of our product related intangibles and goodwill for impairment. The impairment test resulted in our recording an impairment loss on certain product related intangibles amounting to Rs.3,167 million and impairment loss of Rs.10,856 million on goodwill of the betapharm cash generating unit during the year ended March 31, 2009.

Pursuant to the ongoing reforms in the German generic pharmaceutical market as referenced earlier, further tenders were announced by several of the State Healthcare Insurance (SHI) funds during the year ended March 31, 2010. We participated in these tenders through our wholly owned subsidiary betapharm. The final results of a majority of these tenders indicated a lower than anticipated success rate for betapharm.

Due to these results, we re-assessed the impact of such tenders on our future sales and profits in the German market. In light of further deterioration of prices and adverse market conditions in Germany due to the rapid shift of the German generic pharmaceutical market towards a tender (i.e., competitive bidding) based supply model, we recorded an impairment loss of:

- Rs.2,112 million for product related intangibles;
- Rs.5,147 million towards the carrying value of goodwill; and
- Rs.1,211 million towards our trademark/brand beta , which forms a significant portion of the betapharm cash generating unit.

Accordingly, during the year ended March 31, 2010, we recorded a write-down of intangible assets of Rs.3,456 million and a write-down of goodwill of Rs.5,147 million. In the year ended March 31, 2009, we recorded a write-down of intangible assets of Rs.3,167 million and a write down of goodwill of Rs.10,856 million.

De-recognition of intangible assets

In April 2008, we acquired BASF Corporation s pharmaceutical contract manufacturing business and manufacturing facility in Shreveport, Louisiana in the United States of America. As part of the purchase price, Rs.482 million was allocated to customer related intangible assets and product-related intangibles . Rs.142 million of this allocation pertained to a contract with Par Pharmaceuticals Inc. (Par) relating to sales of ibuprofen to Par. During the year ended March 31, 2010, there was clear evidence of a decline in sales of ibuprofen to Par. Accordingly, as of December 31, 2009 we wrote off the remaining intangible asset of Rs.133 million pertaining to this product and customer, as we expect no economic benefits from the use or disposal of these contracts in future periods. The amount derecognized is

disclosed as part of impairment loss on other intangible assets in our consolidated income statement.

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Other (income)/expense, net

In the year ended March 31, 2010, our net other income was Rs.569 million, as compared to net other expense of Rs.254 million in the year ended March 31, 2009. The higher net other expenses in the year ended March 31, 2009 was largely due to an expense of Rs.916 million for liquidated damages paid to Eli Lilly arising out of an unfavorable court decision relating to its olanzapine patent in Germany, explained further in Item 8.a. below under the heading Legal Proceedings .

Results from operating activities

As a result of the foregoing, our results from operating activities was a profit of Rs.2,008 million for the year ended March 31, 2010, as compared to a loss of Rs.2,834 million for the year ended March 31, 2009.

Finance (expense)/income, net

For the year ended March 31, 2010, our net finance expense was Rs.3 million, as compared to net finance expense of Rs.1,186 million for the year ended March 31, 2009.

For the year ended March 31, 2010, our finance expense, excluding foreign exchange gain/loss, decreased by 86% to Rs.75 million, as compared to Rs.553 million for the year ended March 31, 2009. The decrease was attributable to a decrease in our interest expense by 64% during the year ended March 31, 2010, due to a decline in interest rates and repayment of long term borrowings.

Foreign exchange gain was Rs.72 million for the year ended March 31, 2010, as compared to a foreign exchange loss of Rs.634 million for the year ended March 31, 2009. Foreign exchange gain was primarily due to depreciation of the Indian rupee/U.S. dollar exchange rate by 3% during the year ended March 31, 2010. Our foreign exchange loss during the year ended March 31, 2009 was primarily due to depreciation of the Indian rupee/U.S. dollar exchange rate by 14% during such period. Such depreciation resulted in losses on short U.S.$/INR derivative contracts and translation losses on outstanding packing credit loans in foreign currencies.

Profit/(loss) before income taxes

The foregoing resulted in a profit (before income tax) of Rs.2,053 million for the year ended March 31, 2010, as compared to a loss of Rs.3,996 million for the year ended March 31, 2009.

Income tax expense

Income tax expense was Rs.985 million for the year ended March 31, 2010, as compared to an income tax expense of Rs.1,172 million for the year ended March 31, 2009.

Income tax expenses were lower primarily on account of a higher proportion of our profits for the year ended March 31, 2010 being taxed in jurisdictions with lower tax rates as compared to the year ended March 31, 2009. Additionally, taxable profits in our North American business for the year ended March 31, 2010 were lower than those in the year ended March 31, 2009, largely on account of the expiration of market exclusivity for some of our high margin products during the year ended March 31, 2010. Furthermore, a tax benefit that arose for the year ended March 31, 2009 in our German operations (largely on account of a provision for damages in our olanzapine litigation with Eli Lilly in Germany) did not exist during the year ended March 31, 2010. The decrease in tax expenses was partially offset by reduced research and development expenditures, resulting in lower weighted deductions under Indian tax laws, and reduction in the proportion of our profits derived from tax exempted manufacturing units in India.

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During the year ended March 31, 2010, the German tax authorities concluded their preliminary tax audits for betapharm, covering the years ended March 31, 2001 through March 31, 2004, and objected to certain tax positions taken in those years income tax returns filed by betapharm. Our estimate of the additional tax liability that could arise on conclusion of the tax audits, which are expected to be completed shortly, is Rs.302 million (EUR 5 million). Accordingly, we recorded the amount as additional tax expense in our income statement for the year ending March 31, 2010. As part of the acquisition of betapharm during the year ended March 31, 2006, we acquired certain pre-existing income tax liabilities pertaining to betapharm for the fiscal periods prior to the date of the closing of the acquisition (in March 2006). Accordingly, the terms of the Sale and Purchase Agreement provided that Rs.324 million (EUR 6 million) of the purchase consideration would be set aside in an escrow account, to fund against certain indemnity claims by us in respect of legal and tax matters that may arise covering such pre-acquisition periods. The right to make tax related indemnity claims under the Sale and Purchase Agreement only applies with respect to taxable periods from January 1, 2004 until November 30, 2005, and lapses and is time barred at the end of the seven year anniversary of the closing of the acquisition (in March 2013). To the extent that the tax audits cover periods not subject to the indemnity rights under the Sale and Purchase Agreement, we have additional indemnity rights pursuant to a tax indemnity agreement with Santo Holdings, the owner of betapharm prior to 3i Group plc.

Upon receipt of such preliminary tax notices, we initiated the process of exercising such indemnity rights against the sellers of betapharm and Santo Holdings and have concluded that as of March 31, 2010 recovery of the full tax amounts demanded by the German tax authorities is virtually certain. Accordingly, a separate asset of Rs.302 million (EUR 5 million) representing such indemnity rights has been recorded as part of other assets in the statement of financial position, with a corresponding credit to the current tax expense.

Profit/(loss) for the period

As a result of the foregoing, our net result was a profit of Rs.1,068 million for the year ended March 31, 2010, as compared to a net loss of Rs.5,168 million for the year ended March 31, 2009.

Fiscal Year Ended March 31, 2009 Compared to Fiscal Year Ended March 31, 2008

Certain amounts in the years ended March 31, 2009 and 2008 have been reclassified/regrouped to conform to the presentation of the year ended March 31, 2010. The explanations below have been suitably modified in line with such reclassifications.

Revenues

Our overall revenues increased by 39% to Rs.69,441 million in the year ended March 31, 2009, from Rs.50,006 million in the year ended March 31, 2008. Excluding revenues from a unit of the Dow Chemical Company associated with its United Kingdom sites in Mirfield and Cambridge (hereinafter referred to as the Dow Pharma Unit), BASF s manufacturing facility in Shreveport, Louisiana in the United States of America and related pharmaceutical contract manufacturing business (hereinafter referred to as the Shreveport facility) and Jet Generici SRL (hereinafter referred to as Jet Generici), each of which was acquired in April 2008, revenues grew by 33% to Rs.66,644 million during the year ended March 31, 2009. During the year ended March 31, 2009, we launched sumatriptan (an authorized generic version of Imitrex®) in the United States, which accounted for Rs.7,188 million of our consolidated revenues. Excluding the revenues from sumatriptan and revenues from the Dow Pharma Unit, the Shreveport facility and Jet Generici, our revenues increased by 19% to Rs.59,456 million during the year ended March 31, 2009.

Revenues from our Global Generics segment increased by 51% to Rs.49,790 million during the year ended March 31, 2009, from Rs.32,872 million in the year ended March 31, 2008. The increase primarily resulted from an increase in revenues from North America (the United States and Canada), Russia and our Rest of the World markets. Excluding revenues of Rs.1,684 million from the Shreveport facility and Rs.92 million from Jet Generici, each of which was acquired in April 2008, revenues from our Global Generics segment increased by 46% to Rs.48,014 million during the year ended March 31, 2009. During the year ended March 31, 2009, we launched sumatriptan (an authorized generic version of Imitrex®) in the United States, which accounted for Rs.7,188 million of our consolidated revenues. Excluding the revenues from sumatriptan sales and revenues from the Shreveport facility and Jet Generici, our Global Generics revenues grew by 24% to Rs.40,826 million during the year ended March 31, 2009.

Revenues from our Pharmaceutical Services and Active Ingredients segment increased by 13% to Rs.18,758 million during the year ended March 31, 2009, from Rs.16,623 million during the year ended March 31, 2008. Excluding revenues from the Dow Pharma Unit acquired in April 2008 of Rs.1,021 million, revenues from this segment increased by 7% compared to the year ended March 31, 2008. The increase primarily resulted from growth in revenues from our Rest of the World markets (i.e., all markets other than North America, Europe, Russia and other countries of the former Soviet Union and India) by 20% and from North America (the United States and Canada) by 16%.

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For the year ended March 31, 2009, we received 35% of our total revenues from North America (the United States and Canada), 26% of our revenues from Europe, 17% of our revenues from India, 11% of our revenues from Russia and other countries of the former Soviet Union and 11% of our revenues from other countries.

For the year ended March 31, 2009, on an average basis, the Indian rupee depreciated by approximately 14% against the U.S. dollar compared to the average exchange rate for the year ended March 31, 2008. This depreciation had a positive impact on our sales because of the increase in rupee realization from sales denominated in U.S. dollars. However, this positive impact was partially offset due to mark to market losses upon maturity of foreign currency derivative contracts, which were acquired to mitigate the risks of foreign currency volatility. The foregoing mark to market losses on foreign currency derivative contracts resulted in a net decrease in our revenues by Rs.1,455 million during the year ended March 31, 2009. Excluding the impact of such mark to market losses, our total revenues grew by 42% to Rs.70,896 million for the year ended March 31, 2009 from Rs.50,006 million for the year ended March 31, 2008.

Revenues Segment analysis

Global Generics

For the year ended March 31, 2009, this segment accounted for 72% of our total revenues, as compared to 66% for the year ended March 31, 2008. Revenues in this segment increased by 51% to Rs.49,790 million for the year ended March 31, 2009 from Rs.32,872 million for the year ended March 31, 2008. Excluding revenues from the Shreveport facility and Jet Generici, each of which was acquired in April 2008, revenues in this segment increased by 46% to Rs.48,014 million for the year ended March 31, 2009 from Rs.32,872 million for the year ended March 31, 2008.

Revenues from North America (the United States and Canada) in this segment increased by 152% to Rs.19,843 million for the year ended March 31, 2009, from Rs.7,873 million in the year ended March 31, 2008. This increase was primarily due to increases in revenues from the launch of sumatriptan, our authorized generic version of Imitrex®, in the year ended March 31, 2009, which generated revenues of Rs.7,188 million for such period. Excluding the revenues from sumatriptan sales, our revenues in this segment from North America (the United States and Canada) grew by 61% to Rs.12,655 million for the year ended March 31, 2009. The increase was mainly due to strengthening of the U.S. dollar as compared to the Indian rupee and higher volumes for our key products such as fexofenadine, simvastatin, omeprazole, pravastatin, and citalopram.

Revenues from India constituted 17% of this segment s total revenues for the year ended March 31, 2009, as compared to 25% for the year ended March 31, 2008. Revenues in this segment from India increased by 5% to Rs.8,478 million for the year ended March 31, 2009 from Rs.8,060 million for the year ended March 31, 2008. The increase in revenues was due to increases in sales volumes of key brands such as Stamlo, our brand of amlodipine, Omez and Omez DR, our brands of omeprazole, Reditux, our brand of rituximab, and Razo, our brand of rabeprazole, which increases were partially offset by decreases in sales volumes of Nise, our brand of nimesulide. New products launched in India during the year ended March 31, 2009 generated revenues of Rs.232 million in this segment for such period.

Revenues from Europe in this segment increased by 16% to Rs.11,886 million for the year ended March 31, 2009, as compared to Rs.10,216 million for the year ended March 31, 2008. Revenues of betapharm increased to Rs.9,854 million for the year ended March 31, 2009 from Rs.8,189 million for the year ended March 31, 2008. This increase was primarily due to favorable exchange rates, higher volumes for key products and seasonal sales of Grippeimpfstoff beta (vaccine).

Revenues from Russia in this segment increased by 43% to Rs.5,803 million for the year ended March 31, 2009, from Rs.4,064 million for the year ended March 31, 2008. This increase was due to higher sales volumes as well as higher prices of our key brands Nise, our brand of nimesulide, Omez, our brand of omeprazole, Cetrine, our brand of cetrizine, and Ketorol, our brand of ketorolac.

Revenues from other countries of the former Soviet Union in this segment increased by 25% to Rs.1,821 million for the year ended March 31, 2009, as compared to Rs.1,461 million for the year ended March 31, 2008. This increase was primarily due to an increase in revenues from Ukraine, Kazakhstan and Uzbekistan.

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Revenues from other markets in this segment increased by 64% to Rs.1,959 million for the year ended March 31, 2009, as compared to Rs.1,197 million for the year ended March 31, 2008. This increase was due to increases in revenues from Venezuela and South Africa as a result of the launch of clopidogrel and higher sales of Ciproc and Omez.

Excluding the impact of mark to market loss on cash-flow hedges (i.e., derivative contracts to hedge against foreign currency risks) of Rs.800 million, for the year ended March 31, 2009, this segment s revenue increased by 54% to Rs.50,590 million for the year ended March 31, 2009, as compared to Rs.32,872 million for the year ended March 31, 2008.

Pharmaceutical Services and Active Ingredients (PSAI)

For the year ended March 31, 2009, this segment accounted for 27% of our total revenues, as compared to 33% for the year ended March 31, 2008. Revenues in this segment increased by 13% to Rs.18,758 million for the year ended March 31, 2009, as compared to Rs.16,623 million for the year ended March 31, 2008. Excluding revenues from the Dow Pharma Unit acquired in April 2008, revenues from this segment increased to Rs.17,737 million for the year ended March 31, 2009 from Rs.16,623 million for the year ended March 31, 2008.

Revenues in this segment from Europe increased by 9% to Rs.6,160 million for the year ended March 31, 2009, as compared to Rs.5,647 million for the year ended March 31, 2008. The increase was primarily due to increased sales of gemcitabine and sumatriptan, which were partially offset by a decrease in the sales of olanzapine and ramipril.

Revenues in this segment from North America (the United States and Canada) increased by 16% to Rs.3,875 million for the year ended March 31, 2009 from Rs.3,350 million for the year ended March 31, 2008. The increase was primarily due to increased sales of montelukast, rabeprazole sodium and naproxen, which were partially offset by a decrease in sales of ranitidine hydrochloride and ibuprofen.

Revenues in this segment from our Rest of the World markets (i.e., all markets other than North America, Europe, Russia and other countries of the former Soviet Union and India) increased by 20% to Rs.6,340 million for the year ended March 31, 2009 from Rs.5,274 million for the year ended March 31, 2008. This increase was primarily due to an increase in sales of naproxen and ciprofloxacin and the launch of the new product clopidogrel during the year ended March 31, 2009.

For the year ended March 31, 2009, revenues in this segment from India accounted for 13% of our revenues from this segment, as compared to 14% for the year ended March 31, 2008. Revenues in this segment from India increased by 1% to Rs.2,383 million for the year ended March 31, 2009, as compared to Rs.2,352 million for the year ended March 31, 2008.

Excluding the impact of mark to market losses on cash-flow hedges (i.e., derivative contracts to hedge against foreign currency risks) of Rs.655 million, for the year ended March 31, 2009, this segment s revenue increased by 17% to Rs.19,413 million for the year ended March 31, 2009 from Rs.16,623 million for the year ended March 31, 2008.

Gross Margin

Total gross margin as a percentage of total revenues was 53% for the year ended March 31, 2009, as compared to 51% for the year ended March 31, 2008. Total gross margin increased to Rs.36,500 million for the year ended March 31, 2009, from Rs.25,408 million for the year ended March 31, 2008.

Global Generics

Gross margin of this segment increased to 61% of this segment s revenues for the year ended March 31, 2009, as compared to 60% of this segment s revenues for the year ended March 31, 2008. The increase was primarily due to the launch of sumatriptan, our authorized generic version of Imitrex®, which increase was partially offset by the decrease due to hedging losses (i.e., losses on foreign currency derivatives) of Rs.800 million.

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Pharmaceutical Services and Active Ingredients

Gross margin of this segment decreased to 30% of this segment s revenues for the year ended March 31, 2009, as compared to 34% of this segment s revenues for the year ended March 31, 2008. The decrease in gross margin was mainly due to hedging losses (i.e., losses on foreign currency derivatives) of Rs.655 million. Excluding the impact of hedging losses, the gross margin of this segment was 33% of this segment s revenues for the year ended March 31, 2009, as compared to 34% of this segment s revenues for the year ended March 31, 2008. The decrease in gross margin was due to a change in product mix (i.e., an increase in the proportion of sales of lower gross margin products, such as Naproxen and Naproxen sodium, and a decrease in the proportion of sales of higher gross margin products, such as olanzapine and finasteride) for the year ended March 31, 2009.

Selling, general and administrative expenses

Selling, general and administrative expenses as a percentage of total revenues were 30% for the year ended March 31, 2009, as compared to 34% for the year ended March 31, 2008. Selling, general and administrative expenses increased by 25% to Rs.21,020 million for the year ended March 31, 2009, from Rs.16,835 million for the year ended March 31, 2008. The increase was in part attributable to an increase in employee costs by 19% due to annual raises and increases in head count arising both out of our three acquisitions and normal additions, as well as an increase in legal and professional expenses due to product related regulatory activities undertaken during the year ended March 31, 2009. The increase was also partly attributable to an increase in marketing expenses by 30% as a result of higher marketing expenses of our Proprietary Products business, growth in shipping costs, higher commission on sales (due to increased revenues), and higher advertisement expenses for campaigns undertaken in Russia, Belarus, Ukraine and Germany.

Furthermore, amortization expenses decreased by 6% to Rs.1,503 million for the year ended March 31, 2009, from Rs.1,588 million for the year ended March 31, 2008. The reduction was primarily due to reduced amortization at betapharm for certain product related intangibles due to write-downs recorded in March 31, 2008, and was partially offset by an increase in amortization expenses of Rs.165 million for the year ended March 31, 2009 due to our acquisition of the Dow Pharma Unit, the Shreveport facility and Jet Generici.

Research and development expenses

Research and development costs increased by 14% to Rs.4,037 million for the year ended March 31, 2009, from Rs.3,533 million for the year ended March 31, 2008. As a percentage of revenues, research and development expenditures accounted for 6% of our total revenue in the year ended March 31, 2009, as compared to 7% for the year ended March 31, 2008. This increase in costs was primarily due to an increase in development activities in our Global Generics and Proprietary Products segments during the year ended March 31, 2009.

Impairment loss on other Intangible Assets and Goodwill

During the year ended March 31, 2009, there were significant changes in the generics market related to our German subsidiary betapharm. These changes included the announcement of a large competitive bidding (or tender) process from AOK (the largest German State Healthcare (SHI) fund), a continuing decrease in the reference prices of pharmaceutical products and increased quantity of discount contracts being negotiated with SHI funds. AOK s tender process represents a shift to a tender based supply model within the German generics market. We were awarded 8 products representing 33 contracts covering the AOK-insured persons in various regions within Germany, which represented 17% of the overall volume of the products covered by the AOK tender. While our future sales volumes are expected to increase for the products awarded to us under the tender, the expected overall price realization under the tender arrangement will be significantly lower due to decreased price per unit of product. Also, the products awarded did not include our key products.

Due to these developments, as at March 31, 2009, we tested the carrying value of our product related intangibles for impairment. The impairment testing indicated that the carrying values of certain product-related intangibles were higher than their recoverable value, resulting in us recording an impairment loss on certain product related intangibles amounting to Rs.3,167 million during the year ended March 31, 2009.

As at March 31, 2009, we also performed our annual impairment analysis related to the betapharm cash generating unit, comprised of the above product related intangibles, the indefinite life trademark brand beta and acquired goodwill. The recoverable value of our betapharm cash generating unit was based on its fair value less costs to sell, which was higher than its value in use. The impairment testing indicated that the carrying value of the betapharm cash

generating unit was higher than its recoverable value, resulting in us recording an impairment loss of goodwill amounting to Rs.10,856 million during the year ended March 31, 2009.

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Other (income)/expense, net

Other expense was Rs.254 million for the year ended March 31, 2009, as compared to income of Rs.402 million for the year ended March 31, 2008. This was primarily due to the Rs.916 million provided as payable to Eli Lilly to settle its patent infringement claims arising from our sales of olanzapine in Germany. This was partially offset by income of Rs.150 million on account of negative goodwill resulting from the acquisition of the Dowpharma Small Molecule business and Mirfield plant, as well as an increase in other income by Rs.512 million primarily due to an increase in sales of spent chemicals, royalty income and other miscellaneous income.

Results from operating activities

As a result of the foregoing, our results from operating activities decreased to a loss of Rs.2,834 million for the year ended March 31, 2009, as compared to a profit of Rs.2,341 million for the year ended March 31, 2008.

Finance income/(expense), net

For the year ended March 31, 2009, our net finance expense was Rs.1,186 million, as compared to net finance income of Rs.521 million for the year ended March 31, 2008.

For the year ended March 31, 2009, our finance income, excluding foreign exchange gain/loss, decreased by 44% to Rs.482 million from Rs.862 million for the year ended March 31, 2008. The decrease was attributable to a decrease in our interest income from fixed deposits resulting from a decrease in our fixed deposits base, which was partially offset by an increase in gains on sales of investments. For the year ended March 31, 2009, our interest expense decreased by 4% to Rs.1,034 million, from Rs.1,080 million for the year ended March 31, 2008.

Foreign exchange loss was Rs.634 million for the year ended March 31, 2009 as compared to a foreign exchange gain of Rs.738 million for the year ended March 31, 2008, primarily due to depreciation of the Indian rupee/U.S. dollar exchange rate by 14% during the year ended March 31, 2009. Such depreciation resulted in losses on short U.S.$/INR derivative contracts and translation losses on outstanding packing credit loans in foreign currencies.

Profit/(loss) before income taxes

The foregoing resulted in a loss before income tax of Rs.3,996 million for the year ended March 31, 2009, as compared to profit of Rs.2,864 million for the year ended March 31, 2008.

Income tax expense

Income tax expense was Rs.1,172 million for the year ended March 31, 2009, as compared to an income tax benefit of Rs.972 million for the year ended March 31, 2008. The increase in the tax expense for the year ended March 31, 2009 was largely due to higher taxable profits in our North America (United States and Canada) and India businesses, which were partially offset by certain tax benefits. These tax benefits included a benefit attributable to losses in our German operations (primarily due to Rs.916 million paid to Eli Lilly to settle its patent infringement claims arising from our sales of olanzapine in Germany) and a benefit due to reversal of deferred tax liability of Rs.983 million as a result of an impairment charge of betapharm intangibles of Rs.3,167 million. The tax benefit in the year ended March 31, 2008 was primarily on account of a reversal of deferred tax liability of Rs.1,505 million, which was due to a reduction in tax rates in Germany, and a release of a deferred tax liability of Rs.895 million, which was due to the write-down of intangibles amounting to Rs.2,883 million.

Profit/(loss) for the period

As a result of the foregoing, our net result was a loss of Rs.5,168 million for the year ended March 31, 2009, as compared to net profit of Rs.3,836 million for the year ended March 31, 2008.

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Recent Accounting Pronouncements

Standards issued but not yet effective and not yet adopted

In April 2009, the IASB issued *Improvements to IFRSs 2009* a collection of amendments to twelve International Financial Reporting Standards as part of its program of annual improvements to its standards, which is intended to make necessary, but non-urgent, amendments to standards that will not be included as part of another major project. The latest amendments were included in exposure drafts of proposed amendments to IFRS published in October 2007, August 2008, and January 2009. The amendments resulting from this standard mainly have effective dates for annual periods beginning on or after January 1, 2010, although entities are permitted to adopt them earlier. We are evaluating the impact that these amendments will have on our consolidated financial statements.

In November 2009, the IASB issued IFRS 9, *Financial instruments* , to introduce certain new requirements for classifying and measuring financial assets. IFRS 9 divides all financial assets that are currently in the scope of IAS 39 into two classifications those measured at amortized cost and those measured at fair value. The standard along with proposed expansion of IFRS 9 for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment, and hedge accounting will be applicable for annual periods beginning on or after January 1, 2013, although entities are permitted to adopt earlier. We are evaluating the impact which this new standard will have on our consolidated financial statements.

In November 2009, the IASB issued IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* , to introduce requirements when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity s shares and other equity instruments to settle the financial liability fully or partially. This Interpretation is effective for annual periods beginning on or after July 1, 2010.

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 the year ended March 31, 2006, we borrowed Euro 400 million under a bank loan facility with a maturity period of five years.

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

	Year Ended March 31,		
	2010	**2009**	**2008**
	Rs. in millions		
Net cash provided by/(used in):			
Operating activities	Rs. 13,226	Rs. 4,505	Rs. 6,528
Investing activities	(6,998)	(3,472)	(9,367)
Financing activities	(5,307)	(2,527)	(7,865)
Net increase/(decrease) in cash and cash equivalents	Rs. 921	Rs. (1,494)	Rs. (10,704)
Effect of exchange rate changes on cash	Rs. 246	Rs. (114)	Rs. (372)

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Cash Flow from Operating Activities

The net result of operating activities was a cash inflow of Rs.13,226 million for the year ended March 31, 2010, as compared to a cash inflow of Rs.4,505 million for the year ended March 31, 2009. The net cash provided by operating activities increased significantly during the year ended March 31, 2010 primarily on account of:

- An increase in earnings before interest, tax, depreciation and amortization in the current year due to improved business performance.
- A decrease of Rs.900 million of receivables during the year ended March 31, 2010, resulting in increased cash inflows, as compared to an increase of Rs.7,348 million of receivables during the year ended March 31, 2009. This was largely due to improved collection efforts, as well as the impact of collections of receivables due from sales of sumatriptan, which had been outstanding as at March 31, 2009.
- A smaller increase in our inventory during the year ended March 31, 2010 as compared to the year ended March 31, 2009.

Cash Flow from Investing Activities

Net cash used in investing activities during the year ended March 31, 2010 was Rs.6,998 million, as compared to Rs.3,472 million during the year ended March 31, 2009. This was primarily on account of:

- expenditures for purchases of investment securities which were Rs.3,009 million for the year ended March 31, 2010, as compared to net proceeds from sales of investment securities of Rs.4,377 million for the year ended March 31, 2009;
- there were no expenditures for business acquisitions during the year ended March 31, 2010, as compared to expenditures of Rs.3,089 million during the year ended March 31, 2009 pertaining to our acquisitions of the Dow Pharma Unit, the Shreveport facility and Jet Generici; and
- expenditures on property, plant and equipment for the year ended March 31, 2010 were Rs.379 million less than such expenditures for the year ended March 31, 2009.

Cash Flows from Financing Activities

There was a net cash outflow of Rs.5,307 million as a result of financing activities during the year ended March 31, 2010, as compared to a net cash outflow of Rs.2,527 million during the year ended March 31, 2009. This was primarily due to our repayment of long term debt of Rs.3,479 million during the year ended March 31, 2010, as compared to repayment of Rs.1,925 million during the year ended March 31, 2009, and also due to a reduction in our short term borrowings used to finance our working capital requirements and Rs.80 million was spent on acquisition of non-controlling interests.

Principal obligations

The following table summarizes our principal debt obligations (excluding capital lease obligations) outstanding as of March 31, 2010:

	Payments due by period (Rs. in millions)				
Financial Contractual Obligations	**Total**	**Less than 1 year**	**1-5 years**	**More than 5 years**	**Annual Interest Rate**
Short-term borrowings from banks	Rs. 5,604	Rs. 5,604	Rs.		5% for rupee borrowings and LIBOR + 40 75 bps for foreign currency denominated loans

Long term debt							
From Indian Renewable Energy Development Agency*		1		1			2.00%
Foreign currency loan (for betapharm acquisition)		8,838		3,690		5,148	EURIBOR + 70 bps LIBOR + 70 bps
Total obligations	Rs.	14,443	Rs.	9,295	Rs.	5,148	

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

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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.

Cash and cash equivalents are held in Indian rupees, U.S. dollars, U.K. pounds sterling, Brazilian real, Euros, Russian roubles, South African rand, Hong Kong dollars, New Zealand dollars, Malaysian ringgits and Swiss francs.

As of March 31, 2010 and 2009, we had committed to spend approximately Rs.2,948 million and Rs.996 million, respectively, under agreements to purchase property, plant and equipment. This amount is net of capital advances paid in respect of such purchases. These commitments will be funded through the cash flows generated from operations.

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:

Global Generics, where our research and development activities are directed at the development of product formulations, process validation, bioequivalence 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 or whose patents and regulatory exclusivity periods have expired or are nearing expiration in the highly regulated markets of the United States and Europe. Global Generics also include our biologics business, where research and development activities are directed at the development of biologics products for the emerging as well as highly regulated markets. Our new biologics research and development facility caters to the highest development standards, including cGMP, Good Laboratory Practices and bio-safety level IIA.

Pharmaceutical Services and Active Ingredients, where our research and development activities concentrate on development of chemical processes for the synthesis of active pharmaceutical ingredients and intermediates (API) for use in our Global Generics segment and for sales in the emerging and developed markets to third parties. Our research and development activities also support our custom pharmaceutical line of business, where we continue 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.

Proprietary Products, where we are actively pursuing discovery and development of new molecules, sometimes referred to as a new chemical entity or NCE , and differentiated formulations. Our research programs focus on the following therapeutic areas:

- Metabolic disorders
- Cardiovascular disorders
- Bacterial infections
- Pain and inflammation

In the years ended March 31, 2008, 2009 and 2010, we expended Rs.3,533 million, Rs.4,037 million and Rs.3,793 million, respectively, on research and development activities.

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Patents, Trademarks and Licenses

We have filed and been issued numerous patents in our principal areas of operations: Pharmaceutical Services and Active Ingredients and Proprietary Products. 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. As of March 31, 2010, we had registered more than 500 trademarks with the Registrar of Trademarks in India. We have also filed registration applications 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

Global Generics

The United States of America, Germany, India and Russia are the four key markets for our Global Generics business, generating roughly 85% of the revenues of this segment for the year ended March 31, 2010. The base business, excluding the authorized generic sales of sumatriptan, exhibited revenue growth of 9%, which was largely led by our sales of branded generic products in India, Russia and other international markets. The growth in these markets helped us offset the impact of a temporary product recall related slowdown in the United States in the quarter ended December 31, 2009, and also the effect of a rapid shift of the German generic pharmaceutical market towards a tender (i.e., competitive bidding) based supply model.

United States. In the United States, our revenues for the year ended March 31, 2010 were Rs 16,817 million, representing an increase of 13% as compared to our revenues for the year ended March 31, 2009, excluding revenue from authorized generic sales of sumatriptan. In terms of our product pipeline, we made 12 ANDA filings in the year ended March 31, 2010. With this, we now have 73 ANDAs pending approval at the U.S. FDA, of which 38 are Paragraph IV filings and 12 have first to file status.

Germany. In Germany, starting in June 2009, product supplies commenced under the contracts awarded by Allgemeine Ortskrankenkassen (AOK), one of the largest State Healthcare Insurance (SHI) funds in Germany, in its competitive bidding (or tender) process. Many other SHI funds and other health insurance providers have also announced the final results of their tenders. These new tenders continue to cause pressure on existing level of revenues due to a steep decrease in product prices. This appears to be leading to a business model of high volumes and low margins in the German generic pharmaceutical market. Our revenue from Germany for the twelve months ended March 31, 2010 was Euro 109 million, representing a 26% decline over the previous year. We are also increasing our capabilities by increasing the vertical integration of our portfolio and this is expected to help us compete more effectively in the tender based models. Our goal of mitigating erosion of profitability in Germany through cost rationalization continues. In the year ended March 31, 2010, we implemented a workforce reduction of more than 200 employees at our German subsidiaries betapharm and Reddy Holding GmbH. This should enable us to manage a lean organization in this highly tender-based competitive scenario.

India. In India, revenues for the year ended March 31, 2010 were Rs 10,158 million, with growth of 20% over the year ended March 31, 2009. This increase was largely attributable to sales volume growth of 16%. According to ORG IMS in its MAT report for the 12-month period ended March 31, 2010 (the ORG IMS MAT March 2010 report), our growth of 23% in secondary sales (i.e., sales directly to end users) was ahead of the Indian pharmaceutical market s growth rate of 18%. Our growth also continues to be higher than the average of the top 10 pharmaceutical companies in India. According to the ORG IMS MAT March 2010 report, we have also improved our ranking for the number of new products launched in India from 25th in the year ended March 31, 2009 to 8th for the year ended March 31, 2010. A total of 62 new products were launched by us in the year ended March 31, 2010 which generated approximately 5% of our total sales in India. Our dermatology and anti-infective categories provided the maximum number of new launches. Our new introductions also included products with differentiated technology such as Finrid, the brand name for our fentanyl patch. We hope to continue the momentum in our new product launches through a combination of both internally developed and in-licensed products.

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Russia. In Russia, our sales experienced some weakness during the quarters ended June 30 and September 30, 2009. However, after the general economic conditions improved, our sales increased substantially in the quarters ended December 31, 2009 and March 31, 2010. Our total revenues from Russia were Rs.7,232 million, representing an increase of 25% over the year ended March 31, 2009. We launched six new products during the year ended March 31, 2010. According to Pharmexpert in its March 2010 Report, our prescription secondary sales for the year ended March 31, 2010 increased by 21% over the year ended March 31, 2009, as compared to the Russian pharamaceutical market s overall growth rate of 8%. Our rank in this market currently stands at 16 according to Pharmexpert in its March 2010 Report. Our growth strategy for the Russian market is based on expanding our OTC portfolio and a clear focus on introducing differentiated products, such as bio-similar products. We also anticipate that our growth will also be achieved through in-licensing deals, which we are in the process of finalizing with various companies. The reference pricing reforms recently introduced in Russia are expected to be applicable only to select products in our portfolio which are listed as part of the essential drugs list in Russia. We do not anticipate any significant impact on the business because of this reference pricing.

Other Markets. In addition to the four key markets described above, some other major countries where we have a presence and are focused on building our Global Generics business include the United Kingdom, Venezuela, Romania and countries of the former Soviet Union. In March 2009, we announced a realignment of our Global Generics segment s strategy for finished dosages to focus on certain key geographies, and that we would gradually exit from some of our very small, distributor driven markets. In addition to the markets where our operations are already very large and account for a major share of our Global Generics segment s revenues (i.e., the United States, India, Russia and other countries of the former Soviet Union and Germany), we will continue operations in 10 to 15 other markets in which our finished dosage sales are growing significantly. The realignment resulting from the exit from small distribution driven markets represents an important new focus in our Global Generics segment. Not only will this realignment result in consolidation and reduction in complexity of our operations, it will enable us to significantly enhance our customer service and to increase our market share in these key geographies that we intend to focus upon.

Pharmaceutical Services and Active Ingredients

The global economic crisis and its fallout had a significant impact on the API and custom services business for most companies in this space. The growth in our PSAI segment s API business was significantly constrained due to our API customers holding lower inventories and exerting pressure on pricing, leading to steep erosion in prices of key products. In addition, some of our API customers delayed launches of new generic products, either due to losses in litigation or the extension of exclusivity periods for innovative products. Our custom pharmaceutical business also showed lower growth than anticipated, as our customers reduced their placements of new orders.

Revenues from our PSAI segment were Rs.20,404 million for the year ended March 31, 2010, representing growth of 9% over the year ended March 31, 2009. Despite no major product launches in the year ended March 31, 2010, we have experienced a slight improvement in our order book status from the end of the year ended March 31, 2009. During the year ended March 31, 2010, we filed 36 DMFs including 24 in the United States, 8 in Europe, and 4 in our Rest of the World markets (i.e., all markets other than North America, Europe, Russia and other countries of the former Soviet Union and India). Accordingly, we have cumulatively made 375 DMF filings worldwide.

Proprietary Products

Our investments in research and development of new chemical entities (NCEs) have been consistently focused towards developing promising therapeutic products. Strategically, we continue to seek licensing and development arrangements with third parties to further develop our product pipeline. As part of our research program, we also pursue collaborations with leading institutions and laboratories all over the world. Balaglitazone, one of our NCEs being studied for the treatment of Type 2 diabetes, is currently undergoing Phase III clinical trials. We received the initial results from the first Phase III study for balaglitazone in January 2010. The trial met its primary endpoint of glycated hemoglobin (HbA1c) reduction. The next steps for additional Phase III studies will be finalized after further discussions with applicable regulators. We will also explore possible partnerships to monetize this asset. Our Proprietary Products segment also includes our differentiated formulations business. Building a branded business around differentiated formulations in the United States is one of the important aspects of our proprietary products strategy. Our subsidiary Promius Pharma, LLC has launched its own sales and marketing operations for in-licensed

products in the dermatology therapeutic area in the United States while continuing to work on development of new in-house products.

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5.E. Off-balance sheet arrangements

During the year ended March 31, 2010, our equity accounted investee, Kunshan Rotam Reddy Pharmaceuticals Co. Limited (Reddy Kunshan), secured a credit facility of Rs.35 million from First Sino Bank. As at March 31, 2010, we had issued a corporate guarantee of Rs.35 million in favor of First Sino Bank to enhance the credit standing of Reddy Kunshan. The guarantee is required to be renewed every year and our liability may arise in the event of non-payment by Reddy Kunshan of the amounts outstanding under its credit facility.

5.F. Tabular Disclosure of Contractual Obligations

The following summarizes our contractual obligations as of March 31, 2010 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**	**1-5 years**	**More than 5 years**
Operating lease obligations	480	162	318	
Capital lease obligations	252	15	33	204
Purchase obligations				
Agreements to purchase property and equipment and other capital commitments(1)	2,948	2,948		
Borrowings from banks	5,604	5,604		
Long term debt obligations	8,839	3,691	5,148	
Estimated interest payable on long-term debt (2)	137	30	107	
Post retirement benefits obligations (3)	1,126	94	430	602
Total contractual obligations	**19,386**	**12,544**	**6,036**	**806**

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

(2) Disclosure of estimated interest payments for future periods is only with respect to our long term debt obligations, as the projected interest payments with respect to our short term borrowings and other obligations

cannot be reasonably estimated because they are subject to fluctuation in actual utilization of borrowings depending on our daily funding requirements. The estimated interest costs are based on March 31, 2010 applicable benchmark rates and are subject to fluctuation in the future.

(3) Post retirement benefits obligations in the More than 5 years column are estimated for a maximum of 10 years

(4) As per our agreement with I-Ven Pharma Capital Ltd. (I-VEN) (refer to Note 21 in our consolidated financial statements for additional details), in April 2010, I-VEN had a one-time right to require us to pay I-VEN a portfolio termination value amount for the selected portfolio of products covered under our agreement with them. During the

year ended March 31, 2010, we reached an agreement for I-VEN to exercise the portfolio termination value option for a payment in the amount of Rs.2,680 million. This amount is payable by us on or before September 30, 2010. This amount is not included in the table above.

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

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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, 2010 was as follows:

Directors

Name(1)	Age (in yrs)	Position
Dr. K. Anji Reddy(2)	71	Chairman
Mr. G.V. Prasad(2),(3)	50	Chief Executive Officer and Vice Chairman
Mr. Satish Reddy(2),(4)	43	Chief Operating Officer and Managing Director
Mr. Anupam Puri	64	Director
Dr. J.P. Moreau	62	Director
Ms. Kalpana Morparia	61	Director
Dr. Omkar Goswami	53	Director
Mr. Ravi Bhoothalingam	64	Director
Dr. Bruce L. A. Carter	67	Director
Dr. Ashok S. Ganguly (5)	75	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. Ashok S. Ganguly joined the Board on October 23,

2009.

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, 2010, 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.)	50	26	June 30, 1990	Promoter Director, Benzex Labs Private Limited
Satish Reddy (2) Managing Director and Chief Operating Officer	B. Tech., M.S. (Medicinal Chemistry)	43	18	January 18, 1993	Director, Globe Organics Limited
Abhijit Mukherjee President Global Generics	B. Tech. (Chem.)	52	30	January 15, 2003	President, Atul Limited
Amit Patel, Senior Vice President North America Generics	B.A.S, BS (Eco), MBA	36	12	August 6, 2003	V P Corporate Development, CTIS Inc
Dr. C. Cartikeya Reddy, Senior Vice President and Head of Biologics	B. Tech, M.S. and Ph.D.	40	19	July 20, 2004	Senior Engineer, Genetech Inc.

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Name and Designation	Education/ Degrees Held	Age	Experience in years	Date of commencement of employment	Particulars of last employment
K. B. Sankara Rao Executive Vice President Integrated Product Development	M. Pharma	56	32	September 29, 1986	Production Executive, Cipla Limited
Mr. Prabir Kumar Jha Senior Vice President and Global Chief of Human Resources(4)	M.A., PGDM	43	21	November 29, 2002	Regional HR Head-Mahindra British Telecom Ltd.
Saumen Chakraborty President Corporate(5)	B.Sc. (H), PGDM	49	26	July 2, 2001	Vice President, Tecumseh Products India Private Limited
V. S. Vasudevan (3) President European Generics Business	B. Com. ACA	59	36	April 1, 1986	Finance Head, Standard Equity Fund Limited
Umang Vohra Chief Financial Officer	B.E., PGDM	39	15	February 18, 2002	Manager, Pepsico India
Vilas Dholye Executive Vice President Formulations Technical Operations	B. Tech. (Chem.)	61	36	December 18, 2000	Vice President, Pidilite Industries Limited
Dr. Raghav Chari Senior Vice President Proprietary Products	M.S. (Physics), Ph.D.	40	13	September 25, 2006	Head Corporate Strategy, NPS Pharmaceuticals Limited

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

(2) Son of Dr. K. Anji Reddy.

(3) Retired as an employee effective April 1, 2010.

(4) Resigned as an employee effective July 31, 2010.

(5) Re-designated as President and Global Head of Quality, Human Resources and Information Technology effective August 2, 2010.

Note: Dr. R. Ananthanarayanan was appointed as President Pharmaceutical Services and Active Ingredients (PSAI) effective August 6, 2010.

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 for Human and Social Development. He has a Bachelor of Science 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 manufacturing 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, Pathenco APS and GAIN Foundation, Switzerland.

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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 in the United States of America, and an M.S. in Industrial Administration from Purdue University, Indiana in United States of America. He is also an active member of several associations including the National Committee on Drugs and Pharmaceuticals. In addition to positions held in our subsidiaries and joint ventures, he is a Director of Diana Hotels Limited and Infotech Enterprises 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, Indiana in the United States of America 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.

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 Board of Directors of Mahindra & Mahindra Limited, Tech Mahindra Limited and Mumbai Mantra Media Limited.

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 BlackRock Investment Managers Pvt. Limited, Crompton Greaves Limited, IDFC Limited, Ambuja Cements Limited, Max New York Life Insurance Company Limited, Godrej Consumer Products Limited Cairn India Limited, Max India Limited and Avantha Power and Infrastructure Limited.

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 on the Board of Sona Koyo Steering Systems Limited.

Dr. J.P. Moreau joined our Board as a member on May 18, 2007. In October 1976, Dr. Moreau founded Biomeasure Incorporated, based near Boston, Massachusetts, and was its President and Chief Executive Officer. Prior to that, he worked as Executive Vice-President and Chief Scientific Officer of the IPSEN Group where he was responsible for the Group s research and development programs in Paris, London, Barcelona and Boston. He was a Vice-President, Research of IPSEN Group from April 1994, and had been a member of its Executive Committee. 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 an 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. Dr. Moreau was also responsible for establishing Kinerton Ltd. in Ireland in March 1989, a wholesale manufacturer of therapeutic peptides. Effective as of April 22, 2010, he was appointed on the Board of Phytomedics Inc. in the United States of America.

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Ms. Kalpana Morparia joined our Board as a member on June 5, 2007. Ms. Morparia is Chief Executive Officer of J.P. Morgan India. Ms. Morparia leads the Business Groups (Investment Banking, Asset Management, Treasury Services and Principal Investment Management) and Service Groups (Global Research, Finance, Technology and Operations) in India. Ms. Morparia is a member of J.P. Morgan s global strategy team headquartered in New York, and is one of the key drivers of J.P. Morgan s international expansion initiative. Prior to becoming Chief Executive Officer of J.P. Morgan India, Ms. Morparia served as Vice Chair on the Board of ICICI Group. She was a Joint Managing Director of ICICI Group from 2001 to 2007. Ms. Morparia has also served as Chief Strategy and Communications Officer ICICI Group. Ms. Morparia has been with the ICICI Group since 1975. A graduate in law from Bombay University, Ms. Morparia has served on several committees constituted by the Government of India. Ms. Morparia was named one of `The 50 Most Powerful Women in International Business by Fortune magazine in 2008 and one of the 25 most powerful women in Indian business by Business Today, a leading Indian business journal, in the years 2004, 2005, 2006 and 2008. Ms. Morparia was also named one of the The 100 Most Powerful Women by Forbes Magazine in 2006. She also serves on the Board of Bennett, Coleman & Co. Limited and CMC Limited.

Dr. Bruce L.A. Carter joined our Board as a member on July 21, 2008. Dr. Carter is the Chairman of the Board and the former Chief Executive Officer of ZymoGenetics, Inc. in Seattle, Washington, in the United States of America. Dr. Carter was appointed as Chairman of the Board of ZymoGenetics in April 2005. From April, 1998 to January, 2009, he served as Chief Executive Officer of ZymoGenetics. Dr. Carter first joined ZymoGenetics in 1986 as Vice President of Research and Development. In 1988, Novo Nordisk acquired ZymoGenetics and, in 1994, Dr. Carter was promoted to Corporate Executive Vice President and Chief Scientific Officer for Novo Nordisk A/S, the then parent company of ZymoGenetics. Dr. Carter led the negotiations that established ZymoGenetics as an independent company from Novo Nordisk in 2000. Dr. Carter held various positions of increasing responsibility at G.D. Searle & Co., Ltd. from 1982 to 1986 and was a Lecturer at Trinity College, University of Dublin from 1975 to 1982. Dr. Carter received a B.Sc. with Honors in Botany from the University of Nottingham, England, and a Ph.D. in Microbiology from Queen Elizabeth College, University of London. Dr. Carter is also on the Board of Directors of QLT Inc. in Canada, TB Alliance in the United States of America and ZymoGenetics in the United States of America.

Dr. Ashok S. Ganguly joined our Board as a member on October 23, 2009. Dr. Ashok Ganguly is the Chairman of both Firstsource Solutions Limited (formerly ICICI OneSource Ltd.) and ABP Private Ltd. (formerly Ananda Bazar Patrika Group), and has been a Director on the Central Board of the Reserve Bank of India since November 2000. Dr. Ganguly s principal professional career spanned 35 years with Unilever Plc/NV. He was the Chairman of Hindustan Lever Ltd. from 1980 to 1990 and a member of the Unilever Board of Directors from 1990 to 1997 with responsibility for world-wide research and technology. He is a former member of the Board of British Airways Plc (1996-2005). He has served on several public bodies, the principal among them being as a member of the Science Advisory Council to the Prime Minister of India (1985-89) and the U.K. Advisory Board of Research Councils (1991-94). Currently, he is a member of the Prime Minister s Council on Trade and Industry, Investment Commission and the India-U.S.A. CEO Council, set up by the Prime Minister of India and the President of the United States of America. He is also a member of the National Knowledge Commission to the Prime Minister. He is a recipient of the Padma Bhushan as well as the Padma Vibhushan, two India s prestigious civilian honors. At present he serves as a member of the Rajya Sabha, the upper house of the Parliament of India. Dr. Ganguly also serves as a non-executive director of Mahindra & Mahindra Limited, Wipro Limited, and Tata AIG Life Insurance Company Limited. He is a Director on the Advisory Boards of Microsoft Corporation (India) Private Limited and the Blackstone Group.

Executive Officers

Mr. Abhijit Mukherjee is the President and head of our Global Generics segment. 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, Atul Products Limited. He started his career as a management trainee in Hindustan Lever Limited (HLL) and worked at that company for 13 years, including three years in a Unilever company. He was primarily involved in technical assignments in the aroma chemicals business in HLL and Unilever and also in detergents and sulphonation plants of HLL. He holds a degree in Chemical Engineering from the Indian Institute of Technology in Kharagpur, India.

Mr. Amit Patel is our Senior Vice President and Head of North America Generics business. He is responsible for executing our company s strategic efforts in the North American generics market. Prior to joining us in 2003, Amit was co-founder and Chief Executive Officer of a healthcare services startup called MedOnTime that was later acquired by CTIS Inc., 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 mergers and acquisition. 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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Mr. Cartikeya Reddy is a Senior Vice President and he heads our Biologics division, which focuses on the development of biosimilar molecules for the Indian and global markets. Prior to joining us in 2004, Mr. Reddy 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 and pilot scale manufacturing. Mr. Reddy 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 in Cambridge, Massachusetts, United States of America. He also graduated with a Bachelor of Technology degree in Chemical Engineering from the Indian Institute of Technology in Chennai, India.

Mr. K.B. Sankara Rao is an Executive Vice President and head of our Integrated Product Development business. Mr. Rao was appointed to this position in February 2004. He is responsible for directing our strategies for new product development in the areas of generics, branded generics, specialty, NCE formulations and active pharmaceutical ingredients. Mr. Rao began his career with us in 1986. Since then, he has held a series of leadership roles in manufacturing, research and development, quality, projects and supply-chain management, in addition to revitalizing our new product development function using the Six-Sigma process. Mr. Rao was also instrumental in the design and implementation of the Self-Managed Team a concept arguably unique in the pharmaceutical industry. He is a life-member of the Indian Pharmaceutical Association, the Controlled Release Society and the Indian Pharmacy Graduates Association. He is also a member of the Confederation of Indian Industry (CII) Southern Region Quality and Productivity Sub-committee, as well as the CII Sohrabji Godrej Green Business Centre, Hyderabad, Environment and Recycling Council. Mr. Rao holds a Masters degree in Pharmacy from Andhra University.

Mr. Prabir Jha is our Senior Vice President and Global Chief of Human Resources. He leads our Human Resources function globally, and is also responsible for Corporate Communications. Mr. Jha moved to the private sector after almost 10 years in the Indian Civil Services. Prior to joining us in 2002, he worked for organizations such as Thermax Limited and Mahindra British Telecom (now Tech Mahindra) Limited, where he made key contributions to many high-end human resources interventions. He has handled all areas in human resources, and has a special interest in change management, global human resources strategy, employer branding and leadership capability development. Mr. Jha is an alumnus of St. Stephen s College in Delhi and of the Xavier Labour Relations Institute in Jamshedpur. During his time as a government employee, Mr. Jha handled the entire range of human resources and industrial relations responsibilities while with the Indian Ordinance Factories.

Mr. Saumen Chakraborty is the President and head of our Corporate function. In this role, he is responsible for our Quality, Information Technology, Business Process Excellence, Human Resources, Corporate Communications and Supply Chain Effectiveness functions. Prior to this role, he was head of the Global Generics Operations along with Integrated Product Development across the organization. Mr. Chakraborty joined us in 2001 as Global Chief of Human Resources. He later took over as Chief Financial Officer in 2006 and then became our President Corporate and Global Generics Operations in early 2009. He has 26 years of experience in strategic and operational aspects of management. Prior to joining us, he held various line manager, human resources and other positions, including Senior Manager (Finance and Accounts) in Eicher, and Vice President (Operations) in Tecumseh. A member of various industry forums, including the Confederation of Indian Industry 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.

Mr. V.S. Vasudevan was the President and head of our European Generics Business, prior to his retirement effective as of April 1, 2010. 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. Mr. Vasudevan 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. Mr. Vasudevan 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. Mr. Vasudevan is a Chartered Accountant by qualification, and a member of the Peer Review Board of the Institute of Chartered Accountants of India.

Mr. Umang Vohra is our Chief Financial Officer and has over 14 years of experience across various functions within finance, strategic planning and corporate development. He is responsible for managing our organization s global finance functions including among others Accounts and Controlling, Taxation, Compliance, Secretarial, Investor Relations and Treasury. He joined us in 2002, initially working as our Deputy Chief Financial Officer, and has been part of several of our key initiatives like acquisitions, research and development, de-risking transactions, and operational improvements and migration to IFRS in our accounting, governance and finance processes. Prior to joining us, Mr. Vohra worked with Eicher and PepsiCo India. Mr. Vohra has a base degree in computer engineering and he holds an MBA with a specialization in Finance from TA Pai Institute of Management (TAPMI), India.

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Mr. Vilas Dholye is an Executive Vice President and head of our Formulations Technical Operations function. He has over 35 years of experience in operations and projects management. Mr. Dholye joined our organization in 2000 and was responsible for all aspects of our API manufacturing operations. He has over the last few years been responsible for implementing business process excellence and enterprise resource planning projects. Prior to joining us, Mr. Dholye worked with Pidilite Industries, Gharda Chemicals, Humphrey and Glasgow (Now Jacob Engineering) and Asian Paints, among other companies. Vilas holds a Chemical Engineering degree from the University Institute of Chemical Technology, Mumbai.

Dr. Raghav Chari heads our Proprietary Products segment and is responsible for developing a viable portfolio of products across our New Chemical Entities and Differentiated Formulations businesses. Dr. Chari joined us in 2006 as Vice President- Corporate Development for our New Chemical Entities and Specialty business and has helped shape our Proprietary Products business strategy while developing strong alliance platforms. He started his career with McKinsey and Company, where he spent several years as an Associate, Engagement Manager and finally Associate Principal in McKinsey s Pharmaceuticals and Medical Products practice. After McKinsey, he took leadership roles in strategy and business development with several smaller biotech companies. Prior to joining us, he was the head of the Corporate Strategy function at NPS Pharmaceuticals. Dr. Chari is a graduate in Mathematics and Physics from the California Institute of Technology and holds a Ph.D in Theoretical Physics from Princeton University.

Dr. R Ananthanarayanan was appointed as President Pharmaceutical Services and Active Ingredients (PSAI) effective as of August 6, 2010. Prior to joining us, Dr. Ananthanarayanan was President Custom R&D and Manufacturing Services (CRAMS) Aurosource division for APIs and Finished Dosage of Aurobindo Pharma, New Jersey, USA. He was also a key leadership member on the Executive Management Committee at Piramal Healthcare Ltd. and was the President and Head of Pharma Solutions business. He worked with Piramal Healthcare for over 7 years and was involved since the inception of its Pharma Solutions business. Prior to joining Piramal Healthcare, Dr. Ananthanarayanan was Managing Director Asia and Head of Global Sourcing for Galpharm International Ltd, a U.K. based manufacturer/distributor of specialty pharmaceuticals and baby products. He has over 20 years of experience in the pharmaceutical industry with specialization in research and development, manufacturing operations, regulatory affairs, quality assurance, business development, global strategic sourcing, and mergers and acquisitions. Dr. Ananthanarayanan received a Ph.D in Pharmaceutical Technology and a Bachelor s degree in Pharmaceutical Sciences from the University of Mumbai, India.

6.B. *Compensation*

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 our 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 effective as of July 13, 2006, and Mr. G.V. Prasad as Vice Chairman and Chief Executive Officer effective as of January 30, 2006. On July 24, 2007, our shareholders re-appointed Mr. Satish Reddy as Managing Director and Chief Operating Officer effective as of October 1, 2007. Our Managing Director and COO and Vice Chairman and Chief Executive Officer 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 governance and compensation committee, which is composed of independent directors, recommends the commission for our Chairman, Vice Chairman and Chief Executive Officer 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.

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Non-Full Time Directors. Each of our non-full time directors receives an attendance fee of Rs.5,000 (U.S.$111.36) for every Board meeting and Board committee meeting they attend. In the year ended March 31, 2010, we paid an aggregate of Rs.340,000 (U.S.$7,572.40) 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 each 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 each 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 Employees Stock Option Scheme, 2002 and Dr. Reddy s Employees ADR Stock Option Scheme, 2007 in the year ended March 31, 2010 as provided in the table below.

For the year ended March 31, 2010, the directors were entitled to the following amounts as compensation:

(**Amounts Rs. in millions, except number of stock options)**

Name of Directors	**Attendance fees**	**Commission (2)**	**Salary**	**Perquisites**	**Total**	**Number of Stock Options**
Dr. K. Anji Reddy	Rs.	Rs. 100	Rs. 5	Rs. 1	Rs. 106	
Mr. G.V. Prasad		60	4	1	65	
Mr. Satish Reddy		60	4	1	65	
Mr. Anupam Puri	*	3			3	3,000
Dr. J.P. Moreau	*	3			3	3,000
Ms. Kalpana Morparia	*	3			3	3,000
Dr. Omkar Goswami	*	3			3	3,000
Mr. Ravi Bhoothalingam	*	3			3	3,000
Dr. Bruce L. A. Carter	*	3			3	3,000
Dr. Ashok S. Ganguly (1)	*	2			2	

* Attendance fees were paid only to non-full time directors and ranged from Rs.10 thousand to Rs.95 thousand, depending upon their attendance in Board and committee meetings. As a result of rounding to the nearest million, such attendance fees do not appear in the above table.

(1)

Dr. Ashok S. Ganguly joined as a member of our Board of Directors effective October 23, 2009.

(2) For the year ended March 31, 2010, the Board of Directors recommended a fixed commission of Rs.2.7 million (U.S. $60,000) per director applicable to all the independent directors, a specific commission of Rs.0.5 million (U.S. $10,000) to the Chairman of the Audit Committee, Rs.0.2 million (U.S.$5,000) to the Chairman of each other Committee, and Rs.0.07 million (U.S. $1,500) to the members of each Committee. In addition, Rs.0.07 million (U.S.$1,500) was paid towards foreign travel to the directors residing outside India.

The options granted to non-full time directors during the year ended March 31, 2010 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, 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 Employees 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.

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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 the year ended March 31, 2010 and stock options held by all of our other executive officers as of March 31, 2010:

Compensation for Executive Officers

Name	Compensation (Rs. In millions)	No. of Options held	Fiscal Year Of Grant	Exercise Price (Rs.)	Expiration Date (See note no.)
Abhijit Mukherjee	16.6	2,000	2007	5	(4)
		2,000	2008	5	(3)
		2,000	2008	5	(4)
		2,000	2009	5	(2)
		2,000	2009	5	(3)
		2,000	2009	5	(4)
		2,000	2010	5	(1)
		2,000	2010	5	(2)
		2,000	2010	5	(3)
		2,000	2010	5	(4)
Amit Patel	21.2	1,250	2008	5	(3)
		1,375	2008	5	(3)
		1,375	2008	5	(4)
		1,250	2009	5	(2)
		1,250	2009	5	(3)
		1,250	2009	5	(4)
		1,500	2010	5	(1)
		1,500	2010	5	(2)
		1,500	2010	5	(3)
		1,500	2010	5	(4)
Cartikeya Reddy	9.2	600	2006	5	(1)
		600	2006	5	(2)
		600	2006	5	(3)
		600	2006	5	(4)
		500	2007	5	(1)
		500	2007	5	(2)
		500	2007	5	(3)
		500	2007	5	(4)
		1,000	2008	5	(1)
		1,000	2008	5	(2)
		1,000	2008	5	(3)
		1,000	2008	5	(4)
		1,250	2009	5	(1)
		1,250	2009	5	(2)
		1,250	2009	5	(3)
		1,250	2009	5	(4)
		1,250	2010	5	(1)
		1,250	2010	5	(2)
		1,250	2010	5	(3)

1,250	2010	5	(4)

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Name	Compensation (Rs. In millions)	No. of Options held	Fiscal Year Of Grant	Exercise Price (Rs.)	Expiration Date (See note no.)
K. B. Sankara Rao	12.2	1,600	2007	5	(4)
		1,500	2008	5	(3)
		1,500	2008	5	(4)
		1,250	2009	5	(2)
		1,250	2009	5	(3)
		1,250	2009	5	(4)
		1,250	2010	5	(1)
		1,250	2010	5	(2)
		1,250	2010	5	(3)
		1,250	2010	5	(4)
Prabir Kumar Jha	9.9	650	2007	5	(4)
		1,000	2008	5	(3)
		1,000	2008	5	(4)
		1,250	2009	5	(2)
		1,250	2009	5	(3)
		1,250	2009	5	(4)
		1,250	2010	5	(1)
		1,250	2010	5	(2)
		1,250	2010	5	(3)
		1,250	2010	5	(4)
Saumen Chakraborty	16.4	2,000	2007	5	(4)
		2,000	2008	5	(3)
		2,000	2008	5	(4)
		2,000	2009	5	(2)
		2,000	2009	5	(3)
		2,000	2009	5	(4)
		2,000	2010	5	(1)
		2,000	2010	5	(2)
		2,000	2010	5	(3)
		2,000	2010	5	(4)
Umang Vohra	9.5	750	2007	5	(4)
		750	2008	5	(3)
		750	2008	5	(4)
		875	2009	5	(2)
		875	2009	5	(3)
		875	2009	5	(4)
		1,250	2010	5	(1)
		1,250	2010	5	(2)
		1,250	2010	5	(3)
		1,250	2010	5	(4)
V.S. Vasudevan	28.7	5,000	2005	442.5	(1)
		5,000	2005	442.5	(2)
		5,000	2005	442.5	(3)

5,000	2005	442.5	(4)
12,500	2006	362.5	(1)
12,500	2006	362.5	(2)
12,500	2006	362.5	(3)
12,500	2006	362.5	(4)
2,000	2007	5	(4)
1,750	2008	5	(3)
1,750	2008	5	(4)
1,500	2009	5	(2)
1,500	2009	5	(3)
1,500	2009	5	(4)
1,250	2010	5	(1)
1,250	2010	5	(2)
1,250	2010	5	(3)
1,250	2010	5	(4)

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Name	Compensation (Rs. In millions)	No. of Options held	Fiscal Year Of Grant	Exercise Price (Rs.)	Expiration Date (See note no.)
Vilas M. Dholye	10.6	600	2007	5	(4)
		700	2008	5	(3)
		700	2008	5	(4)
		400	2009	5	(2)
		400	2009	5	(3)
		400	2009	5	(4)
		1,250	2010	5	(1)
		1,250	2010	5	(2)
		1,250	2010	5	(3)
		1,250	2010	5	(4)
Dr. Raghav Chari	18.3	500	2008	5	(3)
		750	2009	5	(2)
		750	2009	5	(3)
		750	2009	5	(4)
		1,000	2010	5	(1)
		1,000	2010	5	(2)
		1,000	2010	5	(3)
		1,000	2010	5	(4)
		500	2008	5	(3)

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

(2) The expiration date is five years from the date of vesting. The options vest in two years.

(3) The expiration date is five years from the date of vesting. The options vest in three years.

(4)

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

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, at an amount based on the respective employee s last drawn salary and the years of employment with us. Effective September 1, 1999, we established the Dr. Reddy s Laboratories Gratuity Fund (the Gratuity Fund). Liability with regard to the Gratuity Plan is 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 periodic benefit costs recognized by us were Rs.48 million and Rs.63 million during the years ended March 31, 2009 and 2010, 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 Life Insurance Corporation of India. 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.44 million and Rs.47 million to the superannuation plan during the years ended March 31, 2009 and 2010, respectively.

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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 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.160 million and Rs.195 million to the provident fund plan during the years ended March 31, 2009 and 2010, respectively.

401(k) retirement savings plans. In the United States, we sponsor a defined contribution 401(k) retirement savings plan for all eligible employees who meet minimum age and service requirements. We contributed Rs.54 million and Rs.70 million to this 401(k) retirement savings plan for the years ended March 31, 2009 and 2010, respectively.

National Insurance contributions. In the United Kingdom, certain social security benefits (such as pension, unemployment and disability) are funded by employers and employees through mandatory National Insurance contributions. We sponsor a defined contribution plan for such National Insurance contributions. The contribution amounts are determined based upon the employee s base salary. We have no further obligations under the plan beyond our monthly contributions. We contributed Rs.51 million and Rs.90 million to the U.K. National Insurance scheme during the years ended March 31, 2009 and 2010, respectively.

Pension plans. All employees of Falcon (Mexico) are governed by a defined benefit pension plan. The pension plan provides a payment to vested employees at retirement or termination of 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 in respect of the pension plan are determined by an actuarial valuation, based on which we make 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 Falcon.

Long service benefit recognition. During the year ended March 31, 2010 we introduced a new post-employment defined benefit scheme under which all eligible employees of our parent company who have completed a specified service tenure with our parent company would be eligible for a Long Service Cash Award at the time of their employment separation. The amount of such cash payment would be based on the respective employee s last drawn salary and the specified number of years of employment with our parent company. We have valued the liability associated with this scheme through an independent actuary. During the year ended March 31, 2010, we recorded a liability of Rs.53 million under the scheme.

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, 2010, we had ten directors on our Board, of which seven were 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.

The terms of each of our directors and their expected 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	26 years
Mr. Satish Reddy (1)	September 30, 2012	5 years	17 years
Mr. G.V. Prasad (1)	January 30, 2011	5 years	24 years
Mr. Anupam Puri (2)	Retirement by rotation	Due for retirement by rotation in 2011	8 years
Dr. J. P. Moreau(2)	Retirement by rotation	Due for retirement by rotation in 2010	3 years
Ms. Kalpana Morparia(2)	Retirement by rotation	Due for retirement by rotation in 2010	3 years
Dr. Omkar Goswami (2)(3)	Retirement by rotation	Due for retirement by rotation in 2012	9.5 years

Mr. Ravi Bhoothalingam (2)(3)	Retirement by rotation	Due for retirement by rotation in 2012	9.5 years
Dr. Bruce L. A. Carter (2)	Retirement by rotation	Due for retirement by rotation in 2011	2 years
Dr. Ashok S. Ganguly (2)	Retirement by rotation	Appointment to be confirmed by shareholders in 2010	0.5 year

(1) Full time director.

(2) Non-full time independent director.

(3) Reappointed at the 25th Annual General Meeting of Shareholders held on July 22, 2009.

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The terms of the contracts with our full-time directors are also disclosed to all of our 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 had five Board-level Committees as of March 31, 2010:

Audit Committee.

Governance and Compensation Committee.

Shareholders Grievance Committee.

Management Committee.

Investment Committee.

The Board of Directors, in their meeting held on May 18, 2009, decided to consolidate the Governance Committee and Compensation Committee into one and renamed it as the Governance and Compensation Committee, with membership of the then independent Directors.

Audit Committee. Our management is primarily responsible for our internal controls and financial reporting process. Our independent registered public accounting firm is responsible for performing independent audits of our financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) 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 three non-full time, independent directors:

Dr. Omkar Goswami (Chairman);

Ms. Kalpana Morparia; and

Mr. Ravi Bhoothalingam.

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Our Company Secretary is the Secretary of the Audit Committee. This Committee met on five occasions during the year ended March 31, 2010. Our independent registered public accounting firm was present at all Audit Committee meetings during the year.

The primary responsibilities of the Audit Committee are to:

- Supervise the financial reporting process;
- Review our 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 our independent registered public accounting firm 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 our independent registered public accounting firm and their fees;
- Review the independence of our independent registered public accounting firm;
- Ensure that adequate safeguards have been taken for legal compliance both for us and for our Indian and foreign subsidiaries;
- Review related party transactions;
- Review the functioning of our whistle blower policies and procedures; and
- Implement compliance with all applicable provisions of the Sarbanes-Oxley Act of 2002.

Compensation Committee. Prior to its consolidation with the Governance Committee effective as of May 18, 2009, the Compensation Committee considered and recommended to the Board the compensation of the full time directors and executives, and also reviewed the remuneration package that we offered to different grades/levels of our employees. The Compensation Committee also administered our Employee Stock Option Schemes.

The Compensation Committee consisted of the following three non-full time, independent directors:

- Mr. Ravi Bhoothalingam (Chairman);
- Dr. J.P. Moreau; and
- Ms. Kalpana Morparia

The Global Chief of Human Resources was the Secretary of the Committee. The Compensation Committee met once during the year ended March 31, 2010.

Governance Committee. Prior to its consolidation with the Compensation Committee effective as of May 18, 2009, the primary function of the Governance Committee was 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.

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The Governance Committee consisted of the following non-full time, independent directors:

Mr. Anupam Puri (Chairman); and

Dr. Omkar Goswami.

Our Company Secretary was the Secretary of the Committee. The Governance Committee met once during the year ended March 31, 2010.

Governance and Compensation Committee. The Board of Directors in their meeting held on May 18, 2009, decided to consolidate the Governance Committee and Compensation Committee into one and renamed it as the Governance and Compensation Committee with membership of the then independent Directors. The primary function of the Governance and Compensation 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. This Committee also considers and recommends to the Board the compensation of the full time directors and executives, and also reviews the remuneration package that we offer to different grades/levels of our employees. The Governance and Compensation Committee also administers our Employee Stock Option Schemes.

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

Mr. Anupam Puri (Chairman);

Dr. Omkar Goswami;

Mr. Ravi Bhoothalingam;

Ms. Kalpana Morparia;

Dr. J.P. Moreau; and

Dr. Bruce Carter

The Global Chief of Human Resources is the Secretary of the Committee. The Governance and Compensation Committee met two times during the year ended March 31, 2010.

6.D. ***Employees***

The following table sets forth the number of our employees as at March 31, 2010, 2009 and 2008.

As at March 31, 2010

	North America	Europe	Rest of the World	Total
Manufacturing(1)	163	53	5,524	5,740
Sales and Marketing(2)	102	88	3,873	4,063
Research and Development	6	27	1,753	1,786
Others(3)	44	231	1,591	1,866
Total	315	399	12,741	13,455

As at March 31, 2009

	Europe	Rest of the World	Total

	North America			
Manufacturing(1)	105	89	3,686	3,880
Sales and Marketing(2)	85	235	3,594	3,914
Research and Development	18	24	1,455	1,497
Others(3)	121	197	1,619	1,937
Total	329	545	10,354	11,228

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As at March 31, 2008

	North America	Europe	Rest of the World	Total
Manufacturing(1)		50	3,276	3,326
Sales and Marketing(2)	45	261	3,079	3,385
Research and Development	18		1,708	1,726
Others(3)	46	184	908	1,138
Total	109	495	8,971	9,575

(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 two fiscal years and we consider our relationship with our employees and labor unions to be good. Approximately 8% of our employees belong to labor unions. We did not experience any strikes at our manufacturing facilities in the years ended March 31, 2010 and 2009.

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

The following table sets forth, as of March 31, 2010 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
Dr. K. Anji Reddy (2),(4)	700,956	0.42%	
Mr. G.V. Prasad (4)	1,365,840	0.81%	
Mr. Satish Reddy (4)	1,205,832	0.71%	
Mr. Anupam Puri (ADRs)(5)	13,500	0.01%	3,000
Dr. J.P.Moreau (ADRs)(5)	3,000		3,000
Dr. Omkar Goswami(5)	15,000	0.01%	3,000
Ms. Kalpana Morparia(5)	3,000		3,000

Mr. Ravi Bhoothalingam(5)	15,000	0.01%	3,000
Dr. Bruce L.A. Carter (ADRs)(5)	4,000		3,000
Dr. Ashok S. Ganguly(5)			
Abhijit Mukherjee	20,093	0.01%	20,000
Amit Patel			13,750
Cartikeya Reddy			18,400
K. B. Sankara Rao	62,354	0.04%	13,350
Prabir Kumar Jha	7,000		11,400
Saumen Chakraborty	29,220	0.02%	20,000
Umang Vohra	5,365		9,875
V. S. Vasudevan	31,740	0.02%	85,000
Vilas M. Dholye	2,000		8,200
Dr. Raghav Chari			6,750

(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.

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(3) All shares have voting rights.

(4) Not eligible for grant of Stock Options.

(5) These options were granted in the year ended March 31, 2010 with an exercise price of Rs. 5 each. These options vests at the end of one year from the date of grant and expire at the end of five years from the date of vesting.

Employee Stock Incentive Plans

We have adopted a number of stock option incentive plans covering either our ordinary shares or our ADSs, and we are currently operating under the Dr. Reddy s Employees Stock Option Plan-2002 and the Dr. Reddy s Employees ADR Stock Option Plan-2007. In the year ended March 31, 2010, options to purchase ordinary shares and ADSs were awarded to various executive officers and directors under these two plans as follows: an aggregate of 434,440 options were granted having an average exercise price of Rs.5 per share or ADS and no options were granted at a fair market value based exercise price. Each option granted had an expiration date of five years from the vesting date, and each grant (excluding the grants to Board members, which vest in one year) provided for time-based vesting in 25% increments over four years. As of March 31, 2010, options were outstanding under these two plans for an aggregate of approximately 897,397 shares and ADSs with an average exercise price of Rs.5 per share or ADS and approximately 100,000 shares and ADSs with an average exercise price of Rs.403.02 per share or ADS.

In addition, our subsidiary Aurigene Discovery Technologies Limited (Aurigene) adopted the Aurigene Discovery Technologies Ltd. Employee Stock Option Plan 2003 to provide for issuance of stock options to eligible employees of Aurigene and its subsidiary, Aurigene Discovery Technologies Inc. In the year ended March 31, 2010, no options were awarded under this plan. As of March 31, 2010, options were outstanding under this plan for an aggregate of approximately 1,012,331 shares of Aurigene with an average exercise price of Rs.11.95 per share.

For the years ended March 31, 2010 and 2009, Rs.226 million and Rs.131 million, respectively, has been recorded as employee share-based payment expense under all of our employee stock incentive plans. As of March 31, 2010, there was approximately Rs.167 million of total unrecognized compensation cost related to unvested stock options. This cost is expected to be recognized over a weighted-average period of 2.59 years.

For further information regarding our options and stock option incentive plans, see Note 20 to our consolidated financial statements.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

7.A. *Major shareholders*