

DR REDDYS LABORATORIES LTD  
Form 20-F  
June 15, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 20-F**

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

**OR**

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

**For the Fiscal Year Ended March 31, 2018**

**OR**

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

**OR**

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

**Commission File Number: 1-15182**

**DR. REDDY'S LABORATORIES LIMITED**

(Exact name of Registrant as specified in its charter)

|   |   |
|---|---|
| <b>Not Applicable</b>                           | <b>TELANGANA, INDIA</b>                         |
| (Translation of Registrant's name into English) | (Jurisdiction of incorporation or organization) |

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

**Hyderabad, Telangana 500 034, India**

**+91-40-49002900**

(Address of principal executive offices)

Saumen Chakraborty, *Chief Financial Officer*, +91-40-49002004, saumenc@drreddys.com

8-2-337, Road No. 3, Banjara Hills, Hyderabad, Telangana 500 034, 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.

|   |  |
|---|--|
| <b>Title of Each Class</b>  | <b>Name of Each Exchange on which Registered</b> |
| <b>American depositary shares, each representing one equity share</b> | <b>New York Stock Exchange</b>                   |

**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.

**165,910,907 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  No

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  No

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  No

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 " No "

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

Large accelerated filer  Accelerated filer " Non-accelerated filer " Emerging growth company "

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards<sup>†</sup> provided pursuant to Section 13(a) of the Exchange Act. "

<sup>†</sup> The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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

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

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 " Item 18 "

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 " No



## Currency of Presentation and Certain Defined Terms

In this annual report on Form 20-F, references to “\$” or “U.S.\$” or “dollars” or “U.S. dollars” are to the legal currency of the United States and references to “Rs.” or “rupees” or “Indian rupees” are to the legal currency of India, references to “MXN” are to the legal currency of Mexico, and references to “EUR” or “euros” are to the legal currency of the European Union. Our financial statements are prepared in accordance with International Financial Reporting Standards, or “IFRS”, as issued by the International Accounting Standards Board, or “IASB”. These standards include International Accounting Standards, or “IAS”, and their interpretations issued by the International Financial Reporting Interpretations Committee, or “IFRIC”, or its predecessor, the Standing Interpretations Committee, or “SIC”. 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. FDA” are to the United States Food and Drug Administration, to “NDAs” are to New Drug Applications, and to “ANDAs” are to Abbreviated New Drug Applications.

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

Our financial statements are presented in Indian rupees and translated into U.S. dollars for the convenience of the reader. Except as otherwise stated in this report, all convenience translations from Indian rupees to U.S. dollars are at the certified foreign exchange rate of U.S.\$1 = Rs.65.11, as published by Federal Reserve Board of Governors on March 30, 2018. No representation is made that the Indian rupee amounts have been, could have been or could be converted into U.S. dollars at such a rate or any other rate.

Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

Information contained in our website, [www.drreddys.com](http://www.drreddys.com), is not part of this Annual Report and no portion of such information is incorporated herein.

## Forward-Looking Statements

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”). In addition to statements which are forward-looking by reason of context, the words “may”, “will”, “should”, “expects”, “plans”, “intends”, “anticipates”, “believes”, “estimates”, “predicts”, “potential”, or similar expressions identify forward-looking statements. 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:

in our generics medicines business: consolidation of our customer base and commercial alliances among our customers; the increase in the number of competitors targeting generic opportunities and seeking U.S. market exclusivity for generic versions of significant products; price erosion relating to our generic products, both from competing products and increased regulation; delays in launches of new generic products; efforts of pharmaceutical companies to limit the use of generics including through legislation and regulations; the difficulty and expense of obtaining licenses to proprietary technologies; returns, allowances and chargebacks; and investigations of the calculation of wholesale prices;

in our specialty medicines business: competition for our specialty products; our ability to achieve expected results from investments in our product pipeline; competition from companies with greater resources and capabilities; and the effectiveness of our patents and other measures to protect our intellectual property rights;

our business and operations in general, including: our ability to develop and commercialize additional pharmaceutical products; manufacturing or quality control problems, which may damage our reputation for quality production and require costly remediation; interruptions in our supply chain; disruptions of our or third party information technology systems or breaches of our data security; the failure to recruit or retain key personnel; challenges associated with conducting business globally, including adverse effects of political or economic instability, major hostilities or terrorism; significant sales to a limited number of customers in our U.S. market; our ability to successfully bid for suitable acquisition targets or licensing opportunities, or to consummate and integrate acquisitions;

compliance, regulatory and litigation matters, including: costs and delays resulting from the extensive governmental regulation to which we are subject; the effects of reforms in healthcare regulation and reductions in pharmaceutical pricing, reimbursement and coverage; governmental investigations into selling and marketing practices; potential liability for patent infringement; product liability claims; increased government scrutiny of our patent settlement agreements; failure to comply with complex Medicare and Medicaid reporting and payment obligations; and environmental risks;

other financial and economic risks, including: our exposure to currency fluctuations and restrictions as well as credit risks; potential impairments of our intangible assets; potential significant increases in tax liabilities; and the effect on our overall effective tax rate of the termination or expiration of governmental programs or tax benefits, or of a change in our business; and

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 and assumptions 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 with and/or furnished to the securities and exchange commission (“sec”) from time to time.



**TABLE OF CONTENTS**

|  |    |
|--|----|
| <u>PART I</u>  | 6  |
| <u>ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u> | 6  |
| <u>ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE</u>               | 6  |
| <u>ITEM 3. KEY INFORMATION</u>                                       | 6  |
| <u>ITEM 4. INFORMATION ON THE COMPANY</u>                            | 27 |
| <u>4.A. History and development of the company</u>                   | 27 |
| <u>4.B. Business overview</u>  | 28 |
| <u>4.C. Organizational structure</u>                                 | 54 |
| <u>4.D. Property, plant and equipment</u>                            | 55 |
| <u>ITEM 4A. UNRESOLVED STAFF COMMENTS</u>                            | 56 |
| <u>ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>          | 57 |
| <u>5.A. Operating results</u>  | 71 |
| <u>5.B. Liquidity and capital resources</u>                          | 86 |
| <u>5.C. Research and development, patents and licenses, etc.</u>     | 90 |
| <u>5.D. Trend Information</u>  | 91 |
| <u>5.E. Off-balance sheet arrangements</u>                           | 91 |
| <u>5.F. Tabular Disclosure of Contractual Obligations</u>            | 91 |
| <u>5.G. Safe harbor</u>  | 91 |
| <u>ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>            | 92 |
| <u>6. A. Directors and senior management</u>                         | 92 |
| <u>6.B. Compensation</u>   | 98 |
| <u>6.C. Board practices</u>  | 99 |

|   |            |
|---|------------|
| <u>6.D. Employees</u>   | <u>104</u> |
| <u>6.E. Share ownership</u>   | <u>104</u> |
| <u>ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>    | <u>106</u> |
| <u>7.A. Major shareholders</u>                                      | <u>106</u> |
| <u>7.B. Related party transactions</u>                              | <u>107</u> |
| <u>7.C. Interests of experts and counsel</u>                        | <u>107</u> |
| <u>ITEM 8. FINANCIAL INFORMATION</u>                                | <u>108</u> |
| <u>8.A. Consolidated statements and other financial information</u> | <u>108</u> |
| <u>8.B. Significant changes</u>                                     | <u>108</u> |
| <u>ITEM 9. THE OFFER AND LISTING</u>                                | <u>109</u> |
| <u>9.A. Offer and listing details</u>                               | <u>109</u> |
| <u>9.B. Plan of distribution</u>                                    | <u>109</u> |
| <u>9.C. Markets</u>   | <u>109</u> |
| <u>9.D. Selling shareholders</u>                                    | <u>109</u> |
| <u>9.E. Dilution</u>  | <u>109</u> |
| <u>9.F. Expenses of the issue</u>                                   | <u>110</u> |
| <u>ITEM 10. ADDITIONAL INFORMATION</u>                              | <u>110</u> |
| <u>10.A. Share capital</u>  | <u>110</u> |

|  |            |
|--|------------|
| <u>10.B. Memorandum and articles of association</u>  | <u>110</u> |
| <u>10.C. Material contracts</u>  | <u>111</u> |
| <u>10.D. Exchange controls</u>   | <u>112</u> |
| <u>10.E. Taxation</u>  | <u>117</u> |
| <u>10.F. Dividends and paying agents</u>   | <u>123</u> |
| <u>10.G. Statements by experts</u>   | <u>123</u> |
| <u>10.H. Documents on display</u>  | <u>123</u> |
| <u>10.I. Subsidiary information</u>  | <u>123</u> |
| <u>ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>                   | <u>124</u> |
| <u>ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>                       | <u>126</u> |
| <u>PART II</u>   | <u>128</u> |
| <u>ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>                              | <u>128</u> |
| <u>ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u> | <u>128</u> |
| <u>ITEM 15. CONTROLS AND PROCEDURES</u>  | <u>129</u> |
| <u>ITEM 16. [RESERVED]</u>   | <u>131</u> |
| <u>ITEM 16.A. AUDIT COMMITTEE FINANCIAL EXPERT</u>   | <u>131</u> |
| <u>ITEM 16.B. CODE OF ETHICS</u>   | <u>131</u> |
| <u>ITEM 16.C. PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>                                     | <u>131</u> |
| <u>ITEM 16.D. EXEMPTION FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>                  | <u>131</u> |
| <u>ITEM 16.E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>     | <u>132</u> |
| <u>ITEM 16.F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT</u>                               | <u>132</u> |
| <u>ITEM 16.G. CORPORATE GOVERNANCE</u>   | <u>132</u> |
| <u>ITEM 16.H. MINE SAFETY DISCLOSURE</u>   | <u>134</u> |

|                                      |            |
|--------------------------------------|------------|
| <u>PART III</u>                      | <u>135</u> |
| <u>ITEM 17. FINANCIAL STATEMENTS</u> | <u>135</u> |
| <u>ITEM 18. FINANCIAL STATEMENTS</u> | <u>135</u> |
| <u>ITEM 19. EXHIBITS</u>             | <u>136</u> |
| <u>SIGNATURES</u>                    | <u>137</u> |

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,” which are included elsewhere in this Annual Report on Form 20-F. The selected consolidated income statement data for the years ended March 31, 2018, 2017, 2016, 2015 and 2014 and the selected consolidated statement of financial position data as of March 31, 2018, 2017, 2016, 2015 and 2014 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 five most recent fiscal years. Historical results are not necessarily indicative of future results.

**Income Statement Data**

| <b>For the year ended March 31,</b>   |      |      |      |      |      |
|---|------|------|------|------|------|
| 2018  | 2018 | 2017 | 2016 | 2015 | 2014 |
| (Rs. in millions, U.S.\$ in millions, both except share and per share data) |      |      |      |      |      |
| Convenience   |      |      |      |      |      |
| translation   |      |      |      |      |      |
| into U.S.\$   |      |      |      |      |      |

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|   |             |             |             |             |             |             |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| Revenues  | U.S.\$2,181 | Rs. 142,028 | Rs. 140,809 | Rs. 154,708 | Rs. 148,189 | Rs. 132,170 |
| Cost of revenues  | 1,009       | 65,724      | 62,453      | 62,427      | 62,786      | 56,369      |
| Gross profit  | 1,172       | 76,304      | 78,356      | 92,281      | 85,403      | 75,801      |
| Selling, general and administrative expenses  | 720         | 46,910      | 46,372      | 45,702      | 42,585      | 38,783      |
| Research and development expenses   | 281         | 18,265      | 19,551      | 17,834      | 17,449      | 12,402      |
| Other (income)/expense, net   | (12 )       | (788 )      | (1,065 )    | (874 )      | (917 )      | (1,416 )    |
| Results from operating activities   | 183         | 11,917      | 13,498      | 29,619      | 26,286      | 26,032      |
| Finance (expense)/income, net   | 32          | 2,080       | 806         | (2,708 )    | 1,682       | 400         |
| Share of profit of equity accounted investees, net of tax                             | 5           | 344         | 349         | 229         | 195         | 174         |
| Profit before tax   | 220         | 14,341      | 14,653      | 27,140      | 28,163      | 26,606      |
| Tax expense   | 70          | 4,535       | 2,614       | 7,127       | 5,984       | 5,094       |
| Profit for the year   | U.S.\$151   | Rs. 9,806   | 12,039      | 20,013      | 22,179      | 21,512      |
| Attributable to:  |             |             |             |             |             |             |
| Equity holders of the Company   | 151         | 9,806       | 12,039      | 20,013      | 22,179      | 21,515      |
| Non-controlling interests   | -           | -           | -           | -           | -           | (3 )        |
| Profit for the year   | U.S.\$151   | Rs. 9,806   | Rs. 12,039  | Rs. 20,013  | Rs. 22,179  | Rs. 21,512  |
| Earnings per share  |             |             |             |             |             |             |
| Basic   | U.S.\$0.91  | Rs. 59.13   | Rs. 72.24   | Rs. 117.34  | Rs. 130.22  | Rs. 126.52  |
| Diluted   | U.S.\$0.91  | Rs. 59.00   | Rs. 72.09   | Rs. 116.98  | Rs. 129.75  | Rs. 126.04  |
| Weighted average number of equity shares used in computing earnings per equity share* |             |             |             |             |             |             |
| Basic   |             | 165,845,408 | 166,648,943 | 170,547,643 | 170,314,506 | 170,044,518 |
| Diluted   |             | 166,185,552 | 166,997,675 | 171,072,780 | 170,933,433 | 170,695,017 |
| Cash dividend per equity share**  | U.S.\$0.31  | Rs. 20      | Rs. 20      | Rs. 20      | Rs. 18      | Rs. 15      |

\* Each ADR represents one equity share.

\*\* Excludes corporate dividend tax.



**Statement of Financial Position Data**

|   | As of March 31,  |             |             |             |             |             |
|---|--|-------------|-------------|-------------|-------------|-------------|
|   | 2018   | 2018        | 2017        | 2016        | 2015        | 2014        |
|   | (Rs. in millions, U.S.\$ in millions, except share data) |             |             |             |             |             |
|   | <i>Convenience</i>                                       |             |             |             |             |             |
|   | <i>translation</i>                                       |             |             |             |             |             |
|   | <i>into</i>  |             |             |             |             |             |
|   | U.S.\$   |             |             |             |             |             |
| Cash and cash equivalents                       | U.S.\$41   | Rs. 2,638   | Rs. 3,866   | Rs. 4,921   | Rs. 5,394   | Rs. 8,451   |
| Other investments (current and non-current)     | 321  | 20,879      | 19,507      | 37,022      | 37,076      | 25,083      |
| Total assets                                    | 3,465  | 225,604     | 219,821     | 207,650     | 194,762     | 170,223     |
| Total long term debt, excluding current portion | 385  | 25,089      | 5,449       | 10,685      | 14,307      | 20,740      |
| Total equity                                    | U.S.\$ 1,942   | Rs. 126,460 | Rs. 124,044 | Rs. 128,336 | Rs. 111,302 | Rs. 90,801  |
| Number of shares outstanding                    |  | 165,910,907 | 165,741,713 | 170,607,653 | 170,381,174 | 170,108,868 |

***Convenience translation***

For the convenience of the reader, our consolidated financial statements as of March 31, 2018 have been translated into U.S. dollars at the certified foreign exchange rate of U.S.\$1 = Rs.65.11, as published by the Federal Reserve Board of Governors on March 30, 2018. 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.

| For the year ended March 31, | Period End | Average | High  | Low   |
|------------------------------|------------|---------|-------|-------|
| 2014                         | 60.00      | 60.35   | 68.80 | 53.65 |
| 2015                         | 62.31      | 61.34   | 63.67 | 58.30 |
| 2016                         | 66.25      | 65.58   | 68.84 | 61.99 |
| 2017                         | 64.85      | 66.96   | 68.86 | 64.85 |
| 2018                         | 65.11      | 64.48   | 65.71 | 63.38 |

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 2017  | 65.48 | 64.70 |
| November 2017 | 65.46 | 64.29 |
| December 2017 | 64.57 | 63.83 |
| January 2018  | 64.01 | 63.38 |
| February 2018 | 65.20 | 63.93 |
| March 2018    | 65.24 | 64.83 |

On June 8, 2018, the noon buying rate in the city of New York was Rs.67.56 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**

**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, or if a regulatory agency amends or withdraws existing approvals to market 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 approvals required 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 many of the international markets into which we sell our products, including the United States, 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 approval 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.

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 biosimilars business, due to the intrinsic nature of biologics, our biosimilarity claims can always be contested by our competitors, the innovator company and/or the applicable regulators.

Delays in the receipt of, or failure to obtain approvals for, future products, or new indications and uses, could result in delayed realization of product revenues, reduction in revenues and substantial additional costs. For example, in the

years ended March 31, 2017 and 2018, we experienced delays in obtaining approvals from the U.S. Food and Drug Administration (“U.S. FDA”) for various generic and specialty products as anticipated, principally as a result of the warning letter referenced below.

Additionally, governmental authorities, including among others the U.S. FDA and the U.K. Medicines and Healthcare Products Regulatory Agency (“MHRA”), heavily regulate the manufacturing of our products, including manufacturing quality standards. Periodic audits are conducted on our manufacturing sites, and if the regulatory and quality standards and systems are not found adequate, it could result in an audit observation (on Form 483, if from the U.S. FDA), or a subsequent investigative letter which may require further corrective actions. In recent years, a number of Indian generic pharmaceutical companies were issued import alerts and warning letters by the U.S. FDA. A significant proportion of our manufacturing base of active pharmaceutical ingredients and formulations plants servicing the United States and other markets of our Global Generics business is based out of India. There has been an increasing trend by the U.S. FDA and governmental regulators in other developed countries towards Indian manufacturing site audits. While our quality practices and quality management systems are conducted in a manner designed to satisfy these types of audits, we cannot guarantee that our efforts will prevent adverse outcomes such as audit observations, corrective action requests, warning letters or import bans.

For example, in November 2015, we received a warning letter from the U.S. FDA relating to cGMP deviations at three of our manufacturing facilities - two API manufacturing facilities and one injectable oncology formulations manufacturing facility in India. Refer to Item 4.A. “History and development of the company – Key business developments – Re-Audit of the warning letter impacted sites” for further details.

More generally, unless and until an issue raised in a warning letter from the U.S. FDA is resolved to the U.S. FDA’s satisfaction, the U.S. FDA may withhold approvals of our new products and new drug applications, refuse admission of products manufactured at the facilities noted in the warning letter into the United States, and/or take additional regulatory or legal action against us. The delay in approvals due to moving to an alternate site or alternate vendor, or the cost incurred in connection with remedial actions, can have significant adverse impacts on our ongoing business, financial results and routine operations.

In recent years, there has been increasing regulatory scrutiny of pharmaceutical manufacturers, resulting in product recalls, plant shutdowns and other required remedial actions. We have been subject to increasing scrutiny of our manufacturing operations, and in previous years several of our facilities have been the subject of significant regulatory actions requiring substantial expenditures of resources to ensure compliance with more stringently applied production and quality control regulations. These regulatory actions also adversely affected our ability to supply various products worldwide and to obtain new product approvals at such facilities. If any regulatory body were to require one or more of our significant manufacturing facilities to cease or limit production, our business could be adversely affected. In addition, because regulatory approval to manufacture a drug is site-specific, the delay and cost of remedial actions, or of obtaining approval to manufacture at a different facility also could have a material adverse effect on our business, financial position and results of operations.

Furthermore, we deal with numerous third party manufacturers and despite our oversight, any lapse in their quality practices and quality management systems could lead to similar adverse outcomes in the event of an audit.

If we or our third party suppliers fail to comply fully with applicable regulations or to take corrective actions that are mandated, then there could be a government-enforced shutdown of our production facilities or an import ban, which in turn could lead to product shortages that delay or prevent us from fulfilling our obligations to customers, or we could be subjected to government fines.

Further, while physicians may prescribe products for uses that are not described in the product labeling and that differ from those approved by the U.S. FDA or other similar regulatory authorities (an "off label" use), we are permitted to market our products only for the indications for which they have been approved. The U.S. FDA and other regulatory agencies actively enforce regulations prohibiting promotion of off-label uses, and significant liability can be imposed on manufacturers found to be engaged in off-label marketing violations, including fines in the tens or hundreds of millions of dollars, as well as criminal sanctions. If some of our products are prescribed off label, regulatory authorities such as the U.S. FDA could take enforcement actions if they conclude that we or our distributors have engaged in off label marketing.

An increasing portion of our portfolio are "biologic" products. Unlike traditional "small-molecule" drugs, biologic drugs cannot be manufactured synthetically, but typically must be produced from living animal cells or micro-organisms. As a result, the production of biologic drugs that meet all quality and regulatory requirements is especially complex and is more susceptible to batch failures.

Typically, biological therapeutics face third party intellectual property rights, otherwise known as freedom to operate ("FTO") issues, more than small molecule therapeutics because of the types of patents allowed by national patent offices. Further, our ability to successfully challenge third party patent rights is dependent on the laws of the applicable countries.

The regulatory requirements are still evolving in many markets where we sell or manufacture products, including our biosimilar products, and regulatory requirements may be unclear due to lack of precedents, among other reasons, which may lead to delays in product approvals or other sanctions. In the United States, the Biologics Price Competition and Innovation Act of 2009 (“BPCIA”) created a statutory pathway and abbreviated approval processes for the approval of biosimilar versions of branded biological products. While the U.S. FDA has issued guidelines, the regulatory policies in this area are still evolving. Further, while a number of legal challenges concerning the requirements of the abbreviated biosimilar pathway, patent exchange and other provisions of BPCIA have been adjudicated in U.S. courts, legal challenges concerning FTO, patent exchange and trade matters, among others, continue.

**We operate in a highly competitive and rapidly consolidating industry which may adversely affect our revenues and profits.**

Our products face intense competition from products commercialized or under development by competitors in all of our business segments based in India, the United States and other markets. Many of our competitors have greater financial resources and marketing capabilities than we do. Our competitors may succeed in developing technologies and products that are more effective, more popular or cheaper than any we may develop or license, thus rendering our technologies and products obsolete or uncompetitive, which would harm our business and financial results.

In our proprietary products business, many of our competitors have greater experience than we do in clinical testing, human clinical trials, obtaining regulatory approvals and in marketing and selling of brand, innovative and consumer-oriented products. They may be able to respond more quickly to new or emerging market preferences or to devote greater resources to the development and marketing of new products and/or technologies than we can. As a result, any products and/or innovations that we develop may become obsolete or non-competitive before we can recover the expenses incurred in connection with their development. In addition, for these product categories we need to emphasize to physicians, patients and third-party payors the benefits of our products relative to competing products that are often more familiar or otherwise better established. If competitors introduce new products or new variations on their existing products, our marketed products, even those protected by patents, may be replaced in the marketplace or we may be required to lower our prices.

In our generics business, 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. Prices of generic drugs typically decline, often dramatically, especially as additional generic pharmaceutical companies receive approvals and enter the market for a given product. Consequently, 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.

The number of significant new generic products for which Hatch-Waxman exclusivity is available, and the size of those product opportunities, has decreased in recent years and may decrease in future years in comparison to those available in the past. Patent challenges have become more difficult in recent years. Additionally, we increasingly share the 180-day exclusivity period with other generic competitors, which diminishes the commercial value of the exclusivity. Also, as generic competition has increased in recent years, there has been a corresponding increase in multiple generic applicants sharing available 180-day exclusivity periods as well as strict enforcement by the U.S. FDA in its enforcement of the requirements for a first applicant's eligibility for a 180-day exclusivity period, which reduces the economic benefit from being first-to-file for generic applications.

Further, in recent years the goals established under the Generic Drug User Fee Act, and increased funding of the U.S. FDA's Office of Generic Drugs, have led to more and faster generic approvals, and consequently increased competition. The U.S. FDA has established new steps to enhance competition, promote access and lower drug prices and is approving record-breaking numbers of generic applications. While these improvements are expected to benefit our generic product pipeline, they will also benefit competitors that seek to launch products in established generic markets where we currently offer products.

Our generics business is also facing increasing competition from brand-name manufacturers who do not face any significant regulatory approvals or barriers to enter 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 that are about to face generic competition, or pricing the branded product at a discount equivalent to generic pricing.

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. In addition, our increased focus on innovative and specialty pharmaceuticals requires much

greater use of a direct sales force than does our core generic business.

Our ability to realize significant revenues from direct marketing and sales activities depends on our ability to attract and retain qualified sales personnel. Competition for qualified sales personnel is intense. We may also need to enter into co-promotion, contract sales force or other such arrangements with third parties, for example, where our own direct sales force is not large enough or sufficiently well-aligned to achieve maximum penetration in the market. Any failure to attract or retain qualified sales personnel or to enter into third-party arrangements on favorable terms could prevent us from successfully maintaining current sales levels or commercializing new innovative and specialty products.

**We have concentrations of sales to certain customers that increases our credit risks. Consolidation among distributors and pharmaceutical companies could increase this risk, and also adversely impact our business prospects.**

In the United States, similar to other pharmaceutical companies, we sell our products through wholesale distributors and large retail chains in addition to hospitals, pharmacies and other groups. During the year ended March 31, 2018, our ten largest customers accounted for 77% of our North America Global Generics segment's revenues. We are exposed to a concentration of credit risk in respect of these customers. Drug wholesalers and retail drug chains have undergone, and are continuing to undergo, significant consolidation. This consolidation has resulted in these groups gaining additional purchasing leverage and, consequently, increasing the product pricing pressures facing our business. We expect this trend of increased pricing pressures to continue. Such pressures have reduced, and could continue to reduce, our revenue, margins and profitability.

Additionally, the emergence of large buying groups representing independent retail pharmacies, and the prevalence and influence of managed care organizations and similar institutions, creates competition among pharmaceutical companies to have their products included in the formulary of those groups and enables those groups to extract price discounts on our products.

The traditional model for distribution of pharmaceutical products is also undergoing disruption as a result of the entry or potential entry of new competitors and significant mergers among key industry participants. For example, Amazon Inc. has recently made initial moves to develop a pharmaceutical distribution business. Also, the consolidation resulting from the merger between CVS Health and Aetna, along with Cigna's proposed acquisition of Express Scripts, if consummated, is expected to create a vertically integrated organization with increased control over the physician and pharmacy networks and, ultimately, over which medicines are sold to patients. In addition, several major hospital systems in the United States and the U.S. Department of Veterans Affairs announced a plan to form a nonprofit company that will provide U.S. hospitals with a number of generic drugs. In January 2018, Amazon Inc., Berkshire Hathaway Inc. and JPMorgan Chase & Co., announced that they plan to join forces by forming an independent health care company for their combined one million U.S. employees. Initiatives like these are expected to further increase competition and enhance price erosion. These changes to the traditional supply chain could lead to our customers having increased negotiation leverage and to additional pricing pressure and price erosion.

**If pharmaceutical companies are successful in limiting the use of generics through their legislative, regulatory and other efforts, sales of our generic products may be adversely impacted.**

Many pharmaceutical companies increasingly have used state and federal legislative and regulatory means to delay or eliminate generic competition. These efforts have included:

- pursuing new patents for existing products that may be granted just before the expiration of earlier patents, which could extend patent protection for additional years or otherwise delay the launch of generics;
- introducing "next-generation" products prior to the expiration of market exclusivity for the generic product, which often materially reduces the demand for the generic product for which we seek regulatory approval;
- obtaining extensions of market exclusivity by conducting clinical trials of brand drugs in pediatric populations;
- selling the brand product as an authorized generic, either by the brand company directly or through a marketing partner;
- using the Citizen Petition process to request amendments to U.S. FDA standards on testing bio-equivalence;
- seeking changes to U.S. Pharmacopeia, an organization that publishes industry recognized compendia of drug standards;



attaching patent extension amendments to non-related federal legislation;

engaging in state-by-state initiatives to enact legislation that restricts the substitution of some generic drugs, which could have an impact on products that we are developing;

seeking patents on methods of manufacturing certain active pharmaceutical ingredients;

attempting to use the legislative and regulatory process to have drugs reclassified or rescheduled; and

entering into agreements with pharmacy benefit management companies that have the effect of blocking the dispensing of generic products.

**Research and development efforts invested in our differentiated formulations pipeline may not achieve expected results.**

In our Proprietary Products segment, our business model focuses on building a pipeline in the therapeutic areas of neurology and dermatology. We must invest increasingly significant resources to develop differentiated products, both through our own efforts and through collaborations, in-licensing and acquisition of products from or with third parties. The development of differentiated products involves processes and expertise different from those used in the development of generic drugs, which increases the risks of failure. During each stage, we may encounter obstacles that delay the development process and increase expenses, leading to significant risks that we will not achieve our goals and may be forced to abandon a potential product in which we have invested substantial amounts of time and money. These obstacles may include: preclinical failures; difficulty enrolling patients in clinical trials; delays in completing formulation and other work needed to support an application for registration; adverse reactions or other safety concerns arising during clinical testing; insufficient clinical trial data to support the safety or efficacy of the product candidate; and failure to obtain, or delays in obtaining, the required regulatory approvals for the product candidate or the facilities in which it is manufactured.

Because of the amount of capital required to be invested in augmenting our differentiated products pipeline, in some cases we are reliant on partnerships and joint ventures with third parties, and consequently face the risk that some of these third parties may fail to perform their obligations, or fail to reach the levels of success that we are relying on to meet our revenue and profit goals.

**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 businesses are operating in an ever more challenging environment, with significant pressures on the pricing of our products and on our ability to obtain and maintain satisfactory rates of reimbursement for our products by governments, insurers and other payors. The growth of overall healthcare costs as a percentage of gross domestic product in many countries means that governments and payors are under intense pressure to control healthcare spending even more tightly than in the past.

These pressures are particularly strong given the persistently weak economic and financial environment in many countries and the increasing demand for healthcare resulting from the aging of the global population and associated increases in non-communicable diseases. These pressures are further compounded by consolidation among distributors, retailers, private insurers, managed care organizations and other private payors, which can increase their negotiating power. In addition, these pressures are augmented by intense publicity regarding the pricing of pharmaceuticals by our competitors, as well as government investigations and legal proceedings regarding pharmaceutical pricing practices. In many countries in which we currently operate, including India, pharmaceutical prices are subject to regulation. Our products continue to be subject to increasing price and reimbursement pressure that can limit the revenues we earn from our products in many countries due to, among other things:

- the existence of government-imposed price controls, tender systems, mandatory discounts and rebates, and pricing transparency mandates;

- removal of drugs from government reimbursement schemes (for example products determined to be less cost-effective than alternatives);

- increased difficulty in obtaining and maintaining satisfactory drug reimbursement rates;

- increase in cost containment policies related to health expenses in the context of economic slowdown;

- more demanding evaluation criteria applied by Health Technology Assessment (“HTA”) agencies when considering whether to cover new drugs at a certain price level; and

- more governments using international reference pricing to set the price of drugs based on international comparisons.

We expect these efforts to continue as healthcare payors around the globe, in particular government-controlled health authorities, insurance companies and managed care organizations, step up initiatives to reduce the overall cost of healthcare.

In addition, there has been legislation and legislative proposals concerning drug prices and related issues, including the perceived need to bring more transparency to drug pricing, reviewing the relationship between pricing and manufacturer patient programs, and reforming government program reimbursement methodologies for drugs.

**Opposition to free trade agreements and changes in trade policies of countries in which we operate could adversely affect the pricing and demand for our products.**

Opposition to free trade agreements was an important component of the campaign platform of the new U.S. administration, and there are ongoing efforts to achieve that goal. For example, the United States recently withdrew from the Trans-Pacific Partnership (“TPP”) free trade agreement. Any such changes in free trade agreements could, among other things, interfere with free trade in goods, impose additional customs duties or tariffs, increase the costs and difficulties of international transactions and potentially disturb the international flow of goods and, in particular, trade between the United States and other countries, and thus may have a material adverse effect on our financial performance.

Any new tariffs or other changes in U.S. trade policy could trigger retaliatory actions by affected countries, potentially escalating and resulting in “trade wars”. For example, in March and April 2018, the U.S. government announced new tariffs on steel and aluminum from China, as well as more than 1,300 other Chinese exports. In response, the Chinese government announced that it would enact retaliatory tariffs on more than 100 American products. Trade policy changes or internal policy changes such as these can result in increased costs for goods, which may reduce customer demand for these products if the parties having to pay those tariffs increase their prices, or in increased costs to trading partners. If these consequences are realized, they may materially and adversely affect our sales and our business.

**Our success depends on our ability to successfully develop and commercialize new pharmaceutical products.**

Our future results of operations depend, to a significant degree, upon our ability to successfully develop and 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 biosimilar to their branded counterparts, either directly or in partnership with contract research organizations. The development and commercialization process, particularly with respect to proprietary products and biosimilars, 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 or meet our standards of safety and efficacy. 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.



Our research and development efforts are increasingly dependent on collaborating with third party partners and contract research organizations which have the capability to handle complex technologies and products. Lack of effective project management at our end, or any failure to manage collaboration arrangements among multiple partners, may pose significant risks to product development, to our ability to obtain requisite regulatory approvals in a timely manner, and to our ability to successfully and profitably produce and market such products.

Additionally, if we fail to adequately protect critical proprietary or confidential information or associated intellectual property rights or fail to manage third party partners and contract research organizations that our business depends on, it might have a material adverse impact on our product development execution.

From time to time we also acquire in-process research and development assets, which require significant resources and expenses to continue to develop, both through our own efforts and through collaborations. Because of the inherent risk associated with research and development efforts in our industry, including the high cost and uncertainty of conducting clinical trials (where required), such efforts may not result in the successful introduction of new pharmaceutical products approved by the relevant regulatory bodies.

For example, during the year ended March 31, 2017, we acquired eight Abbreviated New Drug Applications in the United States from Teva Pharmaceutical Industries Limited (“Teva”) and an affiliate of Allergan plc. The consideration for such purchase was U.S.\$350 million in cash at closing, which was funded through borrowings from certain institutional lenders. Our results of operations may suffer if these products are not timely developed, approved or successfully commercialized.

**Failure to maintain supply of compliant, quality product.**

We may experience difficulties, delays and interruptions in the manufacturing and supply of our products for various reasons, including among other reasons:

· demand significantly in excess of forecast demand, which may lead to supply shortages (this is particularly challenging before the launch of a new product);

· supply chain disruptions, including those due to natural or man-made disasters at one of our facilities or at a critical supplier or vendor;

delays in construction of new facilities or the expansion of existing facilities, including those intended to support future demand for our products (the complexities associated with biologics facilities, especially for drug substance, increases the probability of delay);

the inability to supply products due to a product quality failure or regulatory agency compliance action such as license withdrawal, product recall or product seizure; and

other manufacturing or distribution problems, including changes in manufacturing production sites, limits to manufacturing capacity due to regulatory requirements, changes in the types of products produced, or physical limitations or other business interruptions that could impact continuous supply.

We also manufacture and sell a number of sterile products, including oncology products, which are technically complex to manufacture, and require sophisticated environmental controls. Because the production process for such products is so complex and sensitive, any production failures may lead to lengthy supply interruptions.

**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. 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.

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. 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. 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.

**The use of tender systems and other forms of price control could reduce prices for our products or reduce our market opportunities.**

A number of markets in which we operate have implemented or may implement tender systems in an effort to lower prices. Under such tender systems, manufacturers submit bids which establish prices for generic pharmaceutical products. Upon winning the tender, the winning company will receive a preferential reimbursement for a period of time. The tender system often results in companies underbidding one another by proposing low pricing in order to win the tender.

For example, this has resulted in more than 90% of generic products currently sold in German retail outlets being supplied through contracts procured in competitive bidding tenders, thereby causing significant pressure on product margins.

Certain other countries may consider the implementation of a tender system or other forms of price controls. Even if a tender system is ultimately not implemented, the anticipation of such a system could result in price reductions. Failing to win tenders, or the implementation of similar systems or other forms of price controls in other markets leading to further price declines, could have a material adverse effect on our business, financial condition, results of operations, cash flows, and/or share price.

**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 where we have production facilities, we are subject to significant environmental laws and regulations that govern the discharge, emission, storage, handling and disposal of a variety of substances that may be used in or result from our operations. In the normal course of our business, we are exposed to risks relating to possible releases of hazardous substances into the environment, which could cause environmental or property damage or personal injuries, and that could require remediation of contaminated soil and groundwater, which could cause us to incur substantial remediation costs that could adversely affect our consolidated financial position, results of operations or liquidity.

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.

**We may be susceptible to significant product liability claims that are not covered by insurance.**

Our business inherently exposes us to potential product liability claims, and the severity and timing of such claims are unpredictable. Notwithstanding pre-clinical and clinical trials conducted during the development of potential products to determine the safety and efficacy of products for use by humans following approval by regulatory authorities, unanticipated side effects may become evident only when drugs are introduced into the marketplace. Due to this fact, our customers and participants in clinical trials may bring lawsuits against us for alleged product defects. In other instances, third parties may perform analyses of published clinical trial results which raise questions regarding the safety of pharmaceutical products, and which may be publicized by the media. Even if such reports are inaccurate or misleading, in whole or in part, they may nonetheless result in claims against us for alleged product defects.

Under the current regulatory scheme in the United States, branded drug manufacturers can independently update product labeling through the “changes being effected” (“CBE”) supplement process, but a generic manufacturer is only permitted to use the CBE process to update its label if the branded drug manufacturer changes its label first. This can prevent generic manufacturers from complying with state law warning requirements and, as a result, state product liability suits based on failure-to-warn and design defect claims against generics manufacturers have generally been determined to be preempted by Federal law.

Following the United States Supreme Court’s June 2013 ruling in *Mutual Pharmaceutical Co. v. Bartlett* upholding such preemption and immunity of generic manufacturers, the U.S. FDA had proposed a new rule in November 2013 that would have allowed generic manufacturers to independently update product labeling through the CBE supplement process. If the U.S. FDA’s proposed new rule was adopted, it may have eliminated this preemption and increased our potential exposure to lawsuits relating to product safety, side effects and warnings on labels. This new potential exposure to lawsuits would also have increased the risk that, in the future, we would not be able to obtain the type and amount of insurance coverage we desire at an acceptable price and self-insurance may become the sole commercially reasonable means available for managing the product liability risks of our business. After twice delaying publication of a final rule, the U.S. FDA withdrew its proposed rule during 2017.



The risk of exposure to lawsuits is likely to increase as we develop our own new patented products, or limited competition/complex products, such as injectable or biosimilar products, in addition to making generic versions of drugs that have been in the market for some time. In addition, the existence or even threat of a major product liability claim could also damage our reputation and affect consumers' views of our other products, thereby negatively affecting our business, financial condition and results of operations.

**If we 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. If improperly handled or subjected to the wrong conditions, these materials could hurt our employees, cause damage to our properties and harm the environment. Also, increases in business and operations in our plants, and the consequent hiring of new employees, can pose increased safety hazards. Such hazards need to be addressed through training, industrial hygiene assessments and other safety measures and, if not carried out, can lead to industrial accidents. Any of the foregoing could subject us to significant litigation or adversely impact our other litigation matters then outstanding, which could lower our profits in the event we were found liable, and could also adversely impact our reputation.

In a worst case scenario, this could also result in a government forced shutdown of our manufacturing plants, which in turn could lead to product shortages that delay or prevent us from fulfilling our obligations to customers and would adversely affect our business and results of operations.

**Class action lawsuits could expose us to significant liabilities, result in negative publicity, harm our reputation and have a material adverse effect on the price of our ADSs.**

Shareholders of a public company sometimes bring securities class action lawsuits against the company following periods of instability in the market price of that company's securities. As a public company grows in size, the risk of such litigations may increase. If we were to be sued in any such class action suit, irrespective of the merits of the underlying case, it could have adverse effects on us, including among other things: (a) a diversion of management's time and attention and other resources from our business and operations, which could harm our results of operations; (b) negative publicity, which could harm our reputation and restrict our ability to raise capital in the future; (c) require us to incur significant expenses to defend the suit; and (d) if a claim against us is successful, we may be required to pay significant damages and, in certain circumstances, to indemnify our directors and officers if they are named as defendants in the class action suit. Any of the foregoing could, individually or in the aggregate, have a material adverse effect on our financial condition and results of operations and/or the price of our ADSs.

**We have operations in certain countries susceptible to political and economic instability that could lead to disruption or other adverse impacts upon such operations.**

We expect to derive an increasing portion of our sales from regions such as Latin America, Russia and other countries of the former Soviet Union, Central Europe, Eastern Europe and South Africa, all of which may be more susceptible to political and economic instability. For example, as a result of severe political instability and conflict in Ukraine, the United States and the European Union have imposed sanctions on certain individuals and companies in Ukraine and Russia, including sanctions targeted at the Crimea region of Ukraine which was annexed by Russia. Political instability in the region, combined with low worldwide oil prices, resulted in significant devaluation of the Russian rouble. In addition, the Ukrainian hryvnia experienced significant devaluation in 2014 and 2015 and the Venezuelan bolivar experienced significant devaluation beginning in 2013 and continuing through 2018.

Furthermore, the currencies of certain other markets in which we operate (such as South African rands, Brazilian reals, Colombian pesos and Kazakhstan tenges) have undergone significant currency volatility in 2015 and 2016. Some of these are new markets that we have recently entered, and we may decide to enter other new markets in the future and thus may face additional risks arising out of political and economic instability.

We monitor significant political, legal, regulatory 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, regulatory 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.

Significant portions of our manufacturing operations are conducted outside the markets in which our products are sold, and accordingly we often import a substantial number of products into such markets. We may, therefore, be denied access to our customers or suppliers or denied the ability to ship products from any of our sites as a result of closing of the borders of the countries in which we sell our products, or in which our operations are located, due to economic, legislative, political and military conditions, including hostilities and acts of terror, in such countries.

On June 23, 2016, the United Kingdom (“U.K.”) held a remain-or-leave referendum on its membership within the European Union (“EU”), the outcome of which was a decision for the U.K. to exit from the EU (the “Brexit”) effective as of March 29, 2019. A process of negotiation will likely determine the future terms of the U.K.’s relationship with the EU, as well as whether the U.K. will be able to continue to benefit from the EU’s free trade and similar arrangements. As pharmaceutical legislation in the U.K. is largely derived from the EU law and relies on mutual recognition of decision making, implementation of a number of practical steps is required before the U.K. exits the EU. Until the Brexit negotiation process is completed, it is difficult to anticipate the potential impact on our operations. As the process of Brexit evolves, we will continue to assess its impact on us.

In addition, following the Brexit vote in the U.K., the EU has decided to move the headquarters of the EU's health authority, the EMA, from the U.K. to the Netherlands by March 2019. It is expected that a significant percentage of the current employees of the EMA will decide not to make the move to the Netherlands. This raises the possibility that new drug approvals in the EU could be delayed as a result.

**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, the U.K. Bribery Act and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to public 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 including fines, criminal prosecution and potential debarment from public procurement contracts. Failure to comply may also result in reputational damages.

We operate in certain jurisdictions that experience governmental corruption to some degree or are found to be low on the Transparency International Corruption Perceptions Index and, in some circumstances, anti-bribery laws may conflict with some local customs and practices. In many less-developed markets, we work with third-party distributors and other agents for the marketing and distribution of our products. Although our policies prohibit these third parties from making improper payments or otherwise violating these anti-bribery laws, any lapses in complying with such anti-bribery laws by these third parties may adversely impact us. Business activities in many of these markets have historically been more susceptible to corruption.

If our efforts to screen third-party agents and detect cases of potential misconduct fail, we could be held responsible for the non-compliance of these third parties under applicable laws and regulations, including the U.S. Foreign Corrupt Practices Act. Compliance with the U.S. Foreign Corrupt Practices Act and other anti-bribery laws has been subject to increasing focus and activity by regulatory authorities in recent years. We may be subject to injunctions or

limitations on future conduct, be required to modify our business practices and compliance programs and/or have a compliance monitor imposed on us, or suffer other criminal or civil penalties or adverse impacts, including lawsuits by private litigants or investigations and fines imposed by local authorities.

We need to constantly review and update our compliance program to keep it current and active. If we fail to do so, our vulnerabilities may increase and our controls may be found to be inadequate.

Actions by our employees, or third-party intermediaries acting on our behalf, in violation of such laws, whether carried out in the United States or elsewhere, may expose us to liability for violations of such anti-bribery laws and accordingly may have a material adverse effect on our reputation and our business, financial condition or results of operations.

**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.

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 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 have a material adverse effect on our results of operations, financial condition and cash flows.

**Any failure to comply with the complex reporting and payment obligations under the Medicare and Medicaid programs or other laws regulating marketing practices may result in litigation or sanctions and adversely impact our business.**

The U.S. laws and regulations regarding Medicare and/or Medicaid reimbursement and rebates and other governmental programs are complex. Some of the applicable laws may impose liability even in the absence of a specific intent to defraud. The subjective decisions and complex methodologies used in making calculations under these programs are subject to review and challenge, and it is possible that such reviews could result in material changes in the calculation outcomes. In addition, government authorities have significant leverage to persuade pharmaceutical companies to enter into corporate integrity agreements, which can be expensive and disruptive to operations.

If any of the above queries and/or investigations were to result in a lawsuit that was determined adversely to us or in a large cash settlement, it could require us to pay significant amounts and may have a material adverse effect on our business, results of operations, financial condition and cash flows.

**If we have difficulty in identifying candidates for or consummating acquisitions and strategic alliances, 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 regulatory approvals, including the approval of antitrust regulatory bodies.

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.

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 or environmental liability claims.

- 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.

**Our Proprietary Products segment, particularly our Specialty businesses in the United States, faces intense competition from companies that are more entrenched than we are or have greater resources than ours.**

Our risk profile for our Proprietary Products segment is lower than the comparable risk profile of companies working with completely novel entities. Nevertheless, the risk that the businesses in this segment face is higher than that of the Generics business due to several factors outlined below.

Market penetration requires successful commercial positioning in relation not only to past therapies but also new competitors. All of the therapeutic areas in which we compete have many active competitors, each vying for market share in similar indications with products that may have some similar attributes. As such, success in our Proprietary Products segment requires the ability to strategically differentiate our offerings from those of our competitors, which often requires time and investment in additional clinical Health Economics and Outcomes Research (“HEOR”) studies and Real World Evidence (“RWE”) studies, and brings with it the typical uncertainty of outcome that faces many clinical studies. An additional emerging challenge is access to physicians, who can explicitly refuse to see our sales representatives, and new approaches need to be found to provide them with the information required in order to make informed and appropriate prescription decisions. Further, as payors demand more evidence of economic benefit via additional post-marketing studies, gaining favorable coverage is becoming a hurdle. While the impact of these challenges is currently limited, they could potentially become significant in the future.

Even if we are able to successfully differentiate our products, favorable unrestricted reimbursement from payors for our products is necessary in order to compete effectively. Typically, a managed care plan relies on a committee comprised of physicians and other decision makers and influencers to decide which drugs will appear on its formulary. The randomized clinical trial data generated to obtain U.S. FDA approval will no longer be sufficient to gain a favorable access decision. Without our products having a reasonable position on the formulary of managed care plans, patients will not be able to obtain access to our products and physicians become less likely to prescribe our products. Furthermore, even after we contract for access on managed care formularies, we often have to provide additional point-of-sale discounts to patients in order to make their out-of-pocket payments affordable. This has been exacerbated by the growing proliferation of high deductible health plans in the U.S., as employers transfer a greater share of healthcare costs to their employees. All of these are necessary in this business segment, in addition to the aggressive rebates, as all managed care plans attempt to aggressively direct their patients towards generic medicines due to their lack of belief in differentiation or overall cost improvement. Therefore, without heavy investments and new generation of additional clinical data, HEOR and RWE to address the skepticism of meaningful differentiation, our products will not obtain favorable coverage.

Additionally, because the Specialty business of our Proprietary Products segment works primarily with known active molecules, there remains a risk that these products are easier to engineer around than products possessing composition of matter patents. Although we strive to create a robust intellectual property ring fence around these assets, the products in our U.S. Specialty business portfolio may nonetheless enjoy fewer years of exclusivity than traditional innovative products.

**There has been a trend of increased regulatory review of over-the-counter products for safety and efficacy questions, which could potentially affect our over-the-counter products business.**

In recent years, significant questions have arisen regarding the safety, efficacy and potential for misuse of certain over-the-counter medicine products. Litigation, particularly in the United States, sometimes gives rise to these questions. As a result, health authorities around the world have begun to re-evaluate some important over-the-counter products, leading to restrictions on the sale of some of them and even the banning of certain products. If the U.S. FDA or another regulator were to review one or more of our over-the-counter products for such purposes, and if such review resulted in the U.S. FDA or another regulator charging us with violations applicable to such product, it could have a significant adverse effect on our sales of such over-the-counter products and, thus, our overall profitability.

**Impairment charges or write downs in our books could have a significant adverse effect on our results of operations and financial results.**

A substantial portion of the value of our assets pertains to various intangible assets and goodwill. The proportion of the intangible assets and goodwill to our total assets could increase significantly as we pursue various growth

strategies. The value of these intangible assets and goodwill could be substantially impaired upon indications of impairment, with adverse effects on our financial condition and the value of our assets.

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

In certain markets, 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 such products declines in the future, our business, financial position and results of operations could be materially adversely affected.

**From time to time we enter new markets, and face risks arising out of our limited knowledge of the market and the customs, laws and regulatory systems that may apply.**

From time to time we enter new markets in which we have limited knowledge of the market and the customs, laws, regulatory, political and social systems that may apply. Our success in these new markets is dependent upon the acceptability of our product and brand, the ease of doing business in such market and various other social and economic factors that may be specific to such market. Further, limitations by the local authorities of repatriation of generated funds may pose a risk to our success in these new markets. Our sales and profit margins may be adversely affected if we fail to provide competitive options in the market or our brands fail to gain acceptability in the market.

**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 depends, 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 may be breached and we may 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. Therefore, despite all of our information security systems and practices, we may still not be able to ensure the confidentiality of information relating to such products.

**If we are unable to defend ourselves in patent challenges, we could be subject to injunctions preventing us from selling our products, or we could be subject to substantial liabilities that could adversely affect our profits. Further, our patent settlement agreements with the innovators may face government scrutiny, exposing us to significant damages.**

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 ANDA or NDA. 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.

Further, we have been involved in various litigations involving challenges to the validity or enforceability of registered patents and therefore settling such patent litigations has been and is likely to continue to be an important part of our business.

Parties to patent litigation settlement agreements in the United States, including us, are required by law to file them with the Federal Trade Commission (“FTC”) and the Antitrust Division of the Department of Justice for review. The FTC has publicly stated that, in its view, some of the brand-generic settlement agreements violate the antitrust laws and has brought actions against some brand and generic companies that have entered into such agreements. Accordingly, such settlement agreements may expose us to antitrust violation claims.

**Counterfeit versions of our products could harm our patients and reputation.**

Our industry has been increasingly challenged by the vulnerability of distribution channels to illegal counterfeiting and the presence of counterfeit products in a growing number of markets and over the Internet. Third parties may illegally distribute and sell counterfeit versions of our products, which do not meet the rigorous manufacturing and testing standards that our products undergo. Counterfeit products are frequently unsafe or ineffective, and can be potentially life-threatening. Counterfeit medicines may contain harmful substances, the wrong dose of the API or no API at all. However, to distributors and patients, counterfeit products may be visually indistinguishable from the authentic version.

Reports of adverse reactions to counterfeit drugs or increased levels of counterfeiting could materially affect patient confidence in the authentic product, and harm the business of companies such as ours. Additionally, it is possible that adverse events caused by unsafe counterfeit products would mistakenly be attributed to the authentic product. In addition, there could be thefts of inventory at warehouses, plants or while in-transit, which are not properly stored and which are sold through unauthorized channels.

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

A significant portion of our revenues are in currencies other than the Indian rupee, especially in the U.S. dollar, the Euro, the Russian rouble, and the U.K. 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 Indian rupees may decrease and our financial performance may be adversely impacted. This also exposes us to additional risks in the event of devaluations, hyperinflation or restrictions on the conversion of foreign currencies, such as the devaluation of the Venezuelan bolivar beginning in 2013 and continuing through 2018.

Further, we may also be exposed to credit risks in some of the emerging markets from our customers on account of adverse economic conditions.

We use derivative financial instruments to manage some of our net exposure to currency exchange rate fluctuations in certain key foreign currencies. We do not use derivative financial instruments or other hedging techniques to cover all of our potential exposure.

**Our success depends on our ability to retain and attract 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 that has had, or planned departure that 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.

Since a large part of our business centers around the United States, changes to the U.S. immigration laws could make it more difficult to obtain nonimmigrant work authorizations in the United States. There have been and will continue to be calls for extensive changes to U.S. immigration laws regarding the admission of highly-skilled temporary and

permanent workers.

There are some legislative proposals which, if passed and signed into law, could add further costs and/or restrictions to some of the high-skilled temporary worker categories and, in turn, our cost of doing business in the United States may increase. This could have a material and adverse effect on our business, revenues and operating results.

**Significant disruptions of information technology systems, breaches of data security or other cyber-attacks could adversely affect our business.**

Our business is dependent upon increasingly complex and interdependent information technology systems, including Internet-based systems, to support our business processes as well as internal and external communications. In addition, our businesses and operating models increasingly depend on outsourcing and collaboration, which requires exchanging data and information. The size and complexity and interconnectivity of our computer systems make them potentially vulnerable to breakdown, malicious intrusion, computer viruses and other cyber-attacks. Although we have invested in measures to reduce these risks, we cannot be assured that these measures will be successful in preventing the compromise and/or disruption of our information technology systems and related data. Any such disruption may result in the loss, theft or unauthorized disclosure of key information and/or disruption of production and business processes, which could materially and adversely affect our business.

In addition, our systems are potentially vulnerable to data security breaches, whether by employees or others that may expose sensitive data to unauthorized persons. Such data security breaches could lead to the loss of trade secrets or other intellectual property, or could lead to the public exposure of personal information (including sensitive personal information) of our employees, clinical trial patients, customers and others. Such breaches of security could result in reputational damage and could otherwise have a material adverse effect on our business, financial condition and results of operations. Further, increasing use of information technology (“IT”) systems in manufacturing processes would require us to manage issues arising out of human error and/or sabotage.

In our pursuit of operational excellence, several change management initiatives across our organization are ongoing, including but not limited to information technology automation in the areas of manufacturing, research and development, supply chain and shared services. We have outsourced our IT hardware and applications in order to improve IT capability and performance. Any failure by such outsourced service providers to deliver timely and quality services and to co-operate with one another could create disruption, which could materially adversely affect our business or results of operations. Further, any failure by us to effectively manage such change initiatives or implement adequate controls in automation, security or availability of information technology systems could have a material adverse effects on our business.

Increased outsourcing or use of cloud services for conducting our business requires highly secure controls to ensure adequate security of information, considering potential for sabotage as well as availability. Data integrity, confidentiality and data privacy requirements are increasingly concerning regulators, and are incorporated into legal contracts. While we have invested heavily in the protection of data and information technology to reduce these risks, there can be no assurance that our efforts or those of our third-party service providers would be sufficient to protect against data deterioration or loss in the event of a system malfunction, or prevent data from being stolen or corrupted in the event of a security breach.

**We are subject to data privacy and security laws and regulations in many different jurisdictions and countries where we do business, and our or our partners' failure to comply could result in fines, penalties, reputational damage, and could impact the way we operate our business.**

We are subject to laws and regulations governing the collection, use and transmission of health information, including personal data. As the legislative and regulatory landscape for data privacy and protection continues to evolve around the world, there has been an increasing focus on privacy and data protection issues that may affect our business. For example, the European Union's General Data Protection Regulation ("GDPR") that became fully effective in May 2018, requires Companies to satisfy new requirements regarding the handling of personal and sensitive data and includes significant new penalties for non-compliance, with fines up to the higher of EUR 20 million or 4% of total annual worldwide revenue.

Other countries in which we do business have, or are developing, laws governing the collection, use and transmission of personal information as well that may affect our business or require us to adapt our technologies or practices. Some countries, including India, are considering legislation implementing data protection requirements or requiring local storage and processing of data or similar requirements.

These and similar initiatives could increase the cost of developing, implementing or maintaining our IT systems and require us to allocate more resources to compliance initiatives thereby increasing our costs. In addition, a failure by us, or our third-party vendors, to comply with applicable data privacy and security laws could result in financial, legal, business, and reputational harm to us and could have a material adverse effect on the way we operate our business, our financial condition and results of operations.

**Increasing use of social media could give rise to liability or breaches of data security.**

We and our business associates are increasingly relying on social media and mobile tools as a means of communications. To the extent that we seek as a company to use these tools as a means to communicate about our

products or about the diseases our products are intended to treat, there are significant uncertainties as to either the rules that apply to such communications, or as to the interpretations that health authorities will apply to the rules that exist. As a result, despite our efforts to comply with applicable rules, there is a significant risk that our use of social media and mobile tools for such purposes may cause us to nonetheless be found in violation of them. In addition, because of the universal availability of social media tools, our associates or third parties may make use of them in ways that may not be sanctioned by us, and that may give rise to liability, or that could lead to the loss of trade secrets or other intellectual property, or could lead to the public exposure of personal information (including sensitive personal information) of our employees, clinical trial patients, customers and others. Such uses of social media could have a material adverse effect on our business, financial condition and results of operations. Social media posts could also contain information purported to be disclosed by us that is false or otherwise damaging, which could have a material adverse effect on our reputation and the price of our equity shares and ADSs.

**Compliance with new and changing corporate governance and public disclosure requirements adds uncertainty to our compliance policies and increases our costs of compliance.**

Changing laws, regulations and standards relating to accounting, corporate governance and public disclosure, including the Sarbanes Oxley Act of 2002, new SEC regulations, New York Stock Exchange rules, provisions of India's Companies Act 2013, Securities and Exchange Board of India rules and Indian stock market listing regulations, create uncertainty for our company. These new or changed laws, regulations and standards may lack specificity and are subject to varying interpretations. Their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs of compliance as a result of ongoing revisions to such governance standards.

We are committed to maintaining high standards of corporate governance and public disclosure, and our efforts to comply with evolving laws, regulations and standards in this regard have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. In addition, the new laws, regulations and standards regarding corporate governance may make it more difficult for us to obtain director and officer liability insurance. Further, our board members, chief executive officer and chief financial officer could face an increased risk of personal liability in connection with the performance of their duties. As a result, we may face difficulties attracting and retaining qualified board members and executive officers, which could harm our business. If we fail to comply with new or changed laws or regulations and standards differ, our business and reputation may be harmed.

**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 result from a variety of factors, including but not limited to changes in demand for our products, 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), timing of our retailers' promotional programs and successful development and commercialization of limited competition and complex products. Such fluctuations may result in volatility in the price of our equity shares and our ADSs. In such an event, the trading price of our shares and ADSs may be adversely affected.

**Changes in tax regulations of the countries we operate in may increase our tax liabilities and thus adversely affect our financial results.**

Currently, we are entitled to various tax benefits and exemptions under Indian tax laws, such as tax benefits on research and development spending and exemptions applicable to income derived from manufacturing facilities located in certain tax exempted zones. Any changes in these laws or their application may increase our tax liability and thus adversely affect our financial results.

For instance, presently under Indian tax laws, weighted deduction on research and development activities is available at 150% which will be reduced to 100% commencing April 1, 2020. Further, Special Economic Zone ("SEZ") units commencing manufacture or production of article and things after April 1, 2020 will not be eligible for SEZ tax deductions currently available.

India's Finance Act, 2016 amended the test of residence for foreign companies. While a non-resident company is generally taxed only on its Indian sourced income, a resident company is taxed on its global income. Under the amended rule, a company not formed under the laws of India would be considered a resident in India if its place of effective management in the previous year was in India. The term "place of effective management" (or "PoEM") has been defined to mean a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are in substance made.

Effective July 1, 2017, a Goods and Services Tax ("GST") was introduced in India, replacing various taxes such as central excise duty, service tax, octroi, value added tax, sales tax and entry tax, thus avoiding the multiple layers of taxation that had previously existed in India. The GST rate applicable to finished dosages is generally 12%, whereas

API are subject to a GST rate of 18%. Taxing finished dosages at lower rates than API reduces the competitiveness of domestically manufactured finished dosages as compared to imported finished dosages - sometimes referred to as an “inverted duty structure”. Relevant procedures have been prescribed in the GST legislation relating to tax credits allowing for refunds to offset the adverse impact of such inverted duty structure. Accumulation of tax credits is likely to persist at any point of time owing to the lag between the time the tax credit arises and the time that the refund is received.

Further, the effective rate of dividend distribution tax (“DDT”) has been increased several times since 2013. Effective April 1, 2018, the effective rate of DDT increased from 20.3576% to 20.5553%.

In December 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “TCJA”). The TCJA makes broad and complex changes to the U.S. Internal Revenue Code, including, but not limited to, reducing the U.S. federal corporate income tax rate from 35% to 21% effective for tax years beginning after December 31, 2017. The TCJA also puts in place new tax laws that may impact our taxable income for tax years beginning after December 31, 2017, which include, but are not limited to (i) expanded limitations on the deductibility of interest, (ii) immediate expensing of capital expenditures, (iii) the migration from a “worldwide” system of taxation to a territorial system, (iv) the creation of an anti-base erosion minimum tax system; and (v) the modification or repeal of many business deductions and credits.

Changes in tax regimes in countries other than India, such as the TCJA, could result in a material impact on our cash tax liabilities and tax charges, resulting in either an increase or a reduction in financial results depending upon the nature of the change.

**We operate in jurisdictions that impose transfer pricing and other tax-related regulations on our intercompany arrangements, and any failure to comply could materially and adversely affect our profitability.**

We are required to comply with various transfer pricing regulations in India and other countries. Failure to comply with such regulations may impact our effective tax rates and consequently affect our net margins. Additionally, we operate in numerous countries and our failure to comply with the local and municipal tax regimes may result in additional taxes, penalties and enforcement actions from such authorities. Although our intercompany 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. Further, the base erosion and profit shifting (“BEPS”) project undertaken by the Organization for Economic Cooperation and Development (“OECD”) contemplates changes to numerous international tax principles. Various countries have incorporated such tax principles into their domestic legislations by way of enactment. These enactments are significant in nature and require compliance on a regular basis. Although we will continue to adhere to such compliance, significant uncertainties remain as to the outcome of these efforts.





**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 that incorporate terms for indemnification provisions. Our indemnification obligations under such agreements may be unlimited in duration and amount. We maintain insurance coverage that 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.**

In recent years, the global economy has experienced volatility and an unfavorable economic environment, and these trends may continue in the future. Reduced consumer spending, reduced funding for national social security systems or shifting concentrations of payors and their preferences, may force our competitors and us to reduce prices. The growth of our business may be negatively affected by high unemployment levels and increases in co-pays, which may lead some patients to delay treatments, skip doses or use less effective treatments to reduce their costs.

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. We run the risk of delayed payments or even non-payment by our customers, which consist principally of wholesalers, distributors, pharmacies, hospitals, clinics and government agencies.

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.

**Risks from disruption to production, supply chain or operations from natural disasters could adversely affect our business and operations and cause our revenues to decline.**

If flooding, droughts, earthquakes, volcanic eruptions or other natural disasters 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. A significant portion of our manufacturing facilities are situated around Hyderabad, India, a region that has experienced earthquakes, floods and droughts in the past.

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. And, 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.

In addition, 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.

**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, India and Russia) is affected by such acts, our business and results of operations may be adversely affected as a consequence.

**Our principal shareholders have significant control over us and, if they take actions that are not in the best interests of our minority shareholders, the value of their investment in our ADSs may be harmed.**

Our full time directors and members of their immediate families, in the aggregate, beneficially owned 26.76% of our issued shares as at March 31, 2018. 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, 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. As a result, the value of the equity shares and/or ADSs of our minority shareholders may be adversely affected or our minority shareholders might be deprived of a potential opportunity to sell their equity shares and/or ADSs at a premium.

## **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 substantial portion of our total revenues for the year ended March 31, 2018 continued to be derived from sales in India. As a result, the following additional risk factors apply that are not specific to our company or industry.

### **We may be subjected to additional compliance and litigation risks as a result of introduction of the Companies Act, 2013 in India and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.**

As a company that is incorporated in India, we are governed by the rules and regulations covered under the Indian Companies Act, 1956. Significant amendments to the Companies Act were adopted in 2013 and 2014 and a majority of the provisions of the new Act (called the “Companies Act, 2013”) were implemented beginning in April, 2014. Some of the significant changes were in the areas of board and governance processes, boardroom responsibilities, disclosures, compulsory corporate social responsibility, audit matters, initiation of class action suits by shareholders or depositors, fraud reporting and whistle-blower mechanisms.

In addition, on September 2, 2015, the Securities and Exchange Board of India (“SEBI”) issued the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the “Listing Regulations”) that must be followed by all listed Indian public companies effective December 1, 2015. These Listing Regulations were intended to consolidate and streamline the provisions of the existing listing agreements for different segments of the capital markets (e.g., equity securities, debt securities, Indian depository receipts, etc.). The Listing Regulations have thus been structured to provide ease of reference by consolidating into one single document across various types of securities listed on the stock exchanges. Key features of the Listing Regulations include:

A framework has been prescribed for disclosure of material events and information by listed entities to the Indian stock exchanges. Certain events mentioned in the regulations are deemed material and disclosure is mandatory. Certain events are to be disclosed based on application of the guidelines for materiality as prescribed. The Board of Directors is required to frame a policy for determination of materiality and disclose the same on the website of the company.

Entities are required to frame policies on preservation of documents, determination of material subsidiaries, risk management, code of conduct, remuneration of directors, key managerial personnel and other employees, board diversity, materiality of related party transactions and dealing with related party transactions and criteria for evaluation of directors.

However, certain provisions of the Companies Act, 2013 and the new Listing Regulations provisions are subject to varying interpretations and their application in practice may evolve over time as additional guidance is provided by regulatory and governing bodies. Further, the Companies Act, 2013, the rules made thereunder and the new Listing Regulations are subject to various ongoing changes. In 2017, certain amendments to the Companies Act, 2013 were implemented through the Companies (Amendment) Act, 2017 in the areas of related party transactions, financial reporting, audit and auditors, board matters and others. Certain of such amendments are yet to be effective.

This may result in continuing uncertainty regarding compliance matters and higher costs of compliance as a result of ongoing revisions.

**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 Indian 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 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 been volatile in India. If the inflation rises, we may not be able to pass these inflationary costs on to our customers by increasing the price we charge for our products.

**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 may restrict our ability to have human resource policies that would allow us to react swiftly to the needs of our business. Approximately 4% of our employees belong to a number of different labor unions. If we experience problems with our labor unions, our production capacity and may adversely affect our results and operations.

**Risks Relating to our ADSs THAT ARE NOT SPECIFIC TO OUR COMPANY OR INDUSTRY**

**The market price of our ADSs may be volatile, and the value of your investment could materially decline.**

Investors who hold our ADSs may not be able to sell their ADSs at or above the price at which they purchased such ADSs. The price of our ADSs fluctuate from time to time, and we cannot predict the price of our ADSs at any given time. The risk factors described herein could cause the price of our ADSs to fluctuate materially. In addition, the stock market in general, including the market for generic and specialty pharmaceutical companies, has experienced price and volume fluctuations. These broad market and industry factors may materially harm the market price of our ADSs, regardless of our operating performance. In addition, the price of our ADSs may be affected by the valuations and recommendations of the analysts who cover us, and if our results do not meet the analysts' forecasts and expectations, the price of our ADSs could decline as a result of analysts lowering their valuations and recommendations or otherwise.

**Negative media coverage and public scrutiny may adversely affect the prices of our equity shares and ADSs.**

Media coverage, including social media coverage such as blogs, of us has increased dramatically over the past several years. Any negative media coverage, regardless of the accuracy of such reporting, may have an adverse impact on our reputation and investor confidence, resulting in a decline in the share price of our equity shares and our ADSs.

**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 must be sold. Additionally, except under certain limited circumstances, if an investor seeks to convert the Indian 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.

**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 equity shares as opposed to our ADSs.

**The persistently weak global economic and financial environment in many other countries, particularly emerging market countries, and increasing political and social instability could have a material adverse effect on our business and the price and liquidity of our shares and our ADSs.**

Many of the world's largest economies and financial institutions continue to be impacted by a weak ongoing global economic and financial environment, with some continuing to face financial difficulty, liquidity problems and limited availability of credit. It is uncertain how long these effects will last, or whether economic and financial trends will worsen or improve. In addition, these issues may be further impacted by the difficult conditions existing in parts of the Middle East, anti-immigrant activities, social unrest and fears of terrorism that have followed in many countries.

**If U.S. investors in our ADSs are unable to exercise preemptive rights available to our non-U.S. shareholders due to the registration requirements of U.S. securities laws, the investment of such U.S. investors in our ADSs 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% of its 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 depository, which may sell them in the securities markets in India for the benefit of the investors in our ADSs. There can be no assurances as to the value, if any, the depository would receive upon the sale of these securities. To the extent that U.S. investors in our ADSs are unable to exercise preemptive rights, their proportional interests in us would be reduced.

**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.

**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 and ADSs.

**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 equity shares and ADSs.

**Sale of our equity shares may adversely affect the prices of our equity shares and ADSs.**

The Government of India enacted the Depository Receipts Scheme, 2014, effective as of December 15, 2014. This law permits liberalized rules for sponsored and unsponsored secondary market issue of depository receipts, subject to the existing sectorial cap on foreign investment. Once the regulations are implemented, an Indian company's equity shares can be freely issued to a depository for the purpose of issuing depository receipts through any mode permissible for the issue of such securities to other investors. This would enable us to more readily issue shares to the depository for our ADSs and conduct U.S. securities issuances of our ADSs, which would impact the share price and available float in Indian stock exchanges as well as the price and availability of our ADSs on the NYSE. Refer to Item 10.D. "Exchange controls – ADS guidelines" for further details.

## 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 former Chairman, the late 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, Hyderabad, Telangana, India as Company No. 4507 (Company Identification No. L85195TG1984PLC004507). Our registered office is situated at 8-2-337, Road No. 3, Banjara Hills, Hyderabad, Telangana 500 034, India and the telephone number of our registered office is +91-40-49002900. The name and address of our registered agent in the United States is Dr. Reddy's Laboratories, Inc., 107 College Road East, Princeton, New Jersey 08540.

### **Key business developments:**

#### *Re-Audit of the Warning letter impacted sites*

The U.S. FDA issued a warning letter dated November 5, 2015 (the "Warning Letter") relating to current Good Manufacturing Practice ("cGMP") deviations at our active pharmaceutical ingredient ("API") manufacturing facilities at Srikakulam, Andhra Pradesh and Miryalaguda, Telangana, as well as those at our oncology formulation manufacturing facility at Duvvada, Visakhapatnam, Andhra Pradesh. The contents of the Warning Letter emanated from Form 483 observations that followed inspections of these three sites by the U.S. FDA in November 2014, January 2015 and February-March 2015, respectively. Pending resolution of the issues identified in the Warning Letter, the U.S. FDA withheld approval of new products from these facilities.

Subsequent to the issuance of the Warning Letter, we promptly instituted corrective actions and preventive actions and submitted a comprehensive response to the Warning Letter to the U.S. FDA, followed by periodic written updates and in-person meetings with the U.S. FDA. Moreover, to minimize the business impact, we transferred certain key products to alternate manufacturing facilities.

The U.S. FDA subsequently re-inspected these facilities between February and April 2017. The outcome of these inspections were as follows:

*API facility at Miryalaguda:* The U.S. FDA raised three observations in the areas of older methods of validation, improvements in instrument calibrations and adherence to United States Pharmacopeia (“USP”) test methods. Subsequently, in June 2017, the U.S. FDA issued an Establishment Inspection Report (“EIR”) indicating successful closure of audit of this facility.

*API facility at Srikakulam:* The U.S. FDA raised two observations in the areas of high performance liquid chromatography (“HPLC”) maintenance, and the management of soft copies of chromatograms. In February 2018, the U.S. FDA issued an EIR for this facility indicating that its inspection status remains unchanged.

*Oncology formulation facility at Duvvada:* The U.S. FDA raised thirteen observations in the areas of investigations, batch production records, document controls, general computer systems and environmental monitoring. In November 2017, the U.S. FDA issued an EIR for this facility indicating that its inspection status remains unchanged.

Global corrective actions, as well as some specific actions, have already been implemented. Additionally, a detailed response was submitted to the U.S. FDA which included root cause, corrective actions and preventive actions and impact assessment. We remain fully committed to following high standards of quality and strive towards further strengthening of our quality management systems and processes for sustainability. Our plans to enhance our quality management systems and operations include improvements in rigor of investigations and document control systems, standardization of instrument calibrations, strengthening controls with respect to information technology, strengthening shop floor training programs, and simplifying and standardizing standard operating procedures and batch records at the shop floor.

Further, we have initiated additional operational improvements with respect to areas such as shop floor supervision and Gemba walks (also known as process walks) into the shop floor, engineering, implementation of electronic batch records to eliminate manual errors, and focus on robustness of processes.

Throughout the process of remediating issues raised in the Warning Letter, we have been continually engaged with the U.S. FDA in conveying the progress we have made. We are fully committed to produce safe and efficacious products for our patients.

*Asset purchase agreement with Teva Pharmaceutical Industries Ltd*

Refer to Note 33 of our consolidated financial statements.

**Principal capital expenditures:**

During the years ended March 31, 2018, 2017 and 2016, we invested Rs.8,894 million, Rs.12,234 million and Rs.11,933 million (net of sales of capital assets), respectively, in capital expenditures for manufacturing, research and development facilities and other assets. We believe that these investments will create the capacity to support our strategic growth agenda. As of March 31, 2018, we also had contractual commitments of Rs.3,788 million for capital expenditures. These commitments included Rs.3,516 million to be spent in India and Rs.272 million in other countries. We currently intend to finance our additional capital expansion plans entirely through our operating cash flows and through cash and other investments.

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:

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

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

**Pharmaceutical Services and Active Ingredients.** This segment includes our business of manufacturing and marketing active pharmaceutical ingredients and intermediates, also known as “API” or bulk drugs, which are the principal ingredients for finished pharmaceutical products. Active pharmaceutical ingredients and intermediates become finished pharmaceutical products when the dosages are fixed in a form ready for human consumption such as

a tablet, capsule or liquid using additional inactive ingredients. This segment also includes our contract research services business and our manufacture and sale of active pharmaceutical ingredients and steroids in accordance with the specific customer requirements.

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

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

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

## OUR STRATEGY

Our strategy is guided by our core purpose of accelerating access to affordable and innovative medicines, because “Good Health Can’t Wait”.

Spiraling health care costs across the world have put many medicines out of the reach of millions of people who desperately need them. As a global pharmaceutical company, we take very seriously our responsibility to offer affordable alternatives to expensive medicines and help patients manage their disease better.

We deliver on our purpose through a set of promises we make to our customers and partners:

- to bring expensive medicines within reach;
- to address unmet patient needs;
- to help patients manage disease better;
- to work with partners to help them succeed; and
- to enable and help our partners ensure that our products are always available where needed.

Our business strategy and operating priorities strive to fulfill these promises. They are carefully chosen to enable us to deliver the maximum positive impact on the lives of patients around the world. The key elements of our business strategy for achieving these promises include the following:

### **Strengths in science and technology**

Our strengths in science and technology range from synthetic organic chemistry, formulation development, biologics development to small molecule based drug discovery. Such expertise enables us to deliver first-to-market, difficult-to-make products with an industry leading intellectual property and technology leveraged product portfolio.

## Product Offerings

Global Generics: Through our branded and unbranded drug products, we aim to offer affordable alternatives to highly-priced innovator brands, both directly and through key partnerships.

*Branded Generics*: We seek to have a portfolio that is strongly focused on delivering first-to-market, differentiated products to doctors and patients. Many of our brands hold significant market shares in the molecule and therapy areas where they are present. We have also entered into strategic partnerships with third parties to sell our products in markets where we have not established our own sales and distribution operations.

*Unbranded Generics*: We aim to ensure that our development capabilities remain strong and enable us to deliver products that are first to market, tough-to-make and technologically challenging.

*Biologics*: Our biologics business seeks to accelerate access to biosimilar products globally through process development and relevant clinical research. We were the first company to launch a biosimilar version of rituximab in 2007, and have launched 4 biosimilar products in India and other key markets.

Our vertical integration and process innovation helps to ensure that quality products are available to patients in need at all times.

Pharmaceutical Services and Active Ingredients: Our PSAI segment is comprised of our API business and our Custom Pharmaceutical Services (“CPS”) business. Through our API and CPS businesses, we aim to offer technologically advanced product lines and niche product services through partnerships internally and externally.

Our product offerings in our API business are positioned to offer intellectual property and technology-advantaged products to enable launches ahead of others at competitive prices.

Through our CPS business, we aim to offer niche product service capabilities, technology platforms, and competitive cost structures to innovator and biotechnology companies.

Proprietary Products: Our Proprietary Products segment is comprised of our differentiated formulations business in the therapeutic areas of dermatology and neurology. In this segment, we work to improve patient outcomes by identifying unmet and under-met medical needs and addressing them through innovative products and services that are affordable and accessible. We also have an internal pipeline of differentiated products in dermatology and neurology products in various stages of development. In addition, we have a commercial portfolio of in-licensed dermatology products.





## Operating priorities

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:

Safety: The concept of safety has been imbued in the operating culture throughout our organization. Specific initiatives are being carried out to increase safety awareness, to achieve a safe working environment, to avoid accidents and injuries, and to minimize the loss of manufacturing time.

Quality: We are fully dedicated to quality and have robust quality processes and systems in place at our developmental and manufacturing facilities to ensure that every product is safe and of high quality. In addition, we have integrated “Quality by Design” to build quality into all processes and use quality tools to minimize process risks.

Principles of the “Theory of Constraints” and Lean Manufacturing: Our supply chain and product development processes are designed on the principles of the “Theory of Constraints” and lean manufacturing. This results in a responsive supply chain that is able to increase availability of products to the customer with reduced cycle time and waste.

Leadership Development: We are focused on developing leaders, as well as enhancing leadership behavior, across our organization.

## OUR PRINCIPAL AREAS OF OPERATIONS

The following table shows our revenues and the percentage of total revenues of our business segments for the years ended March 31, 2018, 2017 and 2016, respectively:

| Segment              | For the year ended March 31,          |                    |             |                    |             |                    |             |  |
|----------------------|---------------------------------------|--------------------|-------------|--------------------|-------------|--------------------|-------------|--|
|                      | 2018                                  |                    | 2017        |                    | 2016        |                    |             |  |
|                      | (Rs. in millions, U.S.\$ in millions) |                    |             |                    |             |                    |             |  |
| Global Generics      | U.S.\$1,751                           | Rs. 114,014        | 80 %        | Rs. 115,409        | 82 %        | Rs. 128,062        | 83 %        |  |
| PSAI                 | 338                                   | 21,992             | 16 %        | 21,277             | 15 %        | 22,379             | 14 %        |  |
| Proprietary Products | 65                                    | 4,245              | 3 %         | 2,363              | 2 %         | 2,659              | 2 %         |  |
| Others               | 27                                    | 1,777              | 1 %         | 1,760              | 1 %         | 1,608              | 1 %         |  |
| Total Revenue        | <b>U.S.\$2,181</b>                    | <b>Rs. 142,028</b> | <b>100%</b> | <b>Rs. 140,809</b> | <b>100%</b> | <b>Rs. 154,708</b> | <b>100%</b> |  |

Revenues by country and by therapeutic area for the years ended March 31, 2018, 2017 and 2016 are discussed in Note 5 to our consolidated financial statements.

### **Global Generics Segment**

Our Global Generics segment's revenues were Rs.114,014 million for the year ended March 31, 2018, as compared to Rs.115,409 million for the year ended March 31, 2017. The decline is largely attributable to this segment's operations in the United States, where price erosion of certain of our existing products has reduced our revenues.

The production processes for finished dosages of generics 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.

Today, we are one of the leading generic pharmaceutical companies in the world. With the integration of all the markets where we are selling generic 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.

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

### ***India***

During the year ended March 31, 2018, India accounted for 20% of our total Global Generics segment sales. In India, our key therapeutic categories include gastro-intestinal, cardiovascular and anti-diabetic, pain management and oncology. We are also increasing our presence in the niche areas of dermatology, urology and nephrology.

As of March 31, 2018, we had a total of 292 branded products in India. Our top ten branded products together accounted for 28% of our revenues in India in the year ended March 31, 2018. According to IMS Health, a provider of market research to the pharmaceutical industry, in its moving annual total report for the twelve month period ended March 31, 2018, our secondary sales in India grew by 1.8%. In comparison, the Indian pharmaceutical market experienced growth of 6.3% during such period. Strategic Marketing Solutions and Research Center Private Limited (“SMSRC”), a prescription market research firm, in its report measuring pharmaceutical prescriptions in India for the period from January 2018 to February 2018, ranked us 11<sup>th</sup> in terms of the number of prescriptions generated in India during such period.

### **Sales, marketing and distribution network**

We generate demand for our products through our 5,680 sales representatives (which include representatives engaged by us on a contract basis through a service provider) and front line managers, who frequently visit doctors to detail our related product portfolio. They also visit various pharmacies to ensure that our brands are adequately stocked.

We sell our products primarily through clearing and forwarding agents to approximately 3,000 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. 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**

We compete with different companies in the Indian formulations market, depending upon therapeutic and product categories and, within each category, upon dosage strengths and drug delivery. On the basis of sales, we were the 16<sup>th</sup> largest pharmaceutical company in India, with a market share of 2.2%, according to IMS Health in its moving annual total report for the twelve month period ended March 31, 2018.

Our competitors in the Indian market include Cipla Limited, GlaxoSmithKline Pharmaceuticals Limited, Zydus Cadila Healthcare Limited, Sun Pharmaceutical Industries Limited, Piramal Enterprises Limited, Alkem Limited, Mankind Pharma Limited, Pfizer Limited, Abbott India, Lupin Limited, Aristo Pharma Limited, Intas Pharmaceuticals Limited, Sanofi India Limited and Emcure Pharmaceuticals Limited.

### Government regulations

The manufacturing and marketing of drugs, drug products and cosmetics in India is governed by many statutes, regulations and guidelines, including but not limited to the following:

- The Drugs and Cosmetics Act, 1940 and the Drugs and Cosmetics Rules, 1945;
- The Drugs and Magic Remedies (Objectionable Advertisements) Act, 1954;
- The Narcotic Drugs and Psychotropic Substances Act, 1985;
- The Drugs (Price Control) Order, 1995 and 2013, read in conjunction with the Essential Commodities Act, 1955; and
- The National Pharmaceuticals Pricing Policy, 2012.

These statutes, regulations and guidelines govern the testing, manufacturing, packaging, labeling, storing, record-keeping, safety, approval, pricing, advertising, promotion, sale and distribution of pharmaceutical products.

An approval is required from the Ministry of Health before a generic equivalent of an existing or referenced brand drug can be marketed. When processing a generics application, the Ministry of Health usually waives the requirement of conducting complete clinical studies, although it generally 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 equivalent for the generic drug with 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 our generic products, the Ministry of Health also requires that our procedures and operations conform to current Good Manufacturing Practice (“cGMP”) regulations, relating to good manufacturing practices as defined by various countries. We must follow the cGMP regulations at all times during the manufacture of our products. We continue to spend significant time, money and effort in the areas of production and quality testing to help ensure full compliance with cGMP regulations. The timing of final Ministry of Health approval of a generic application depends on various factors, including patent expiration dates, sufficiency of data and regulatory approvals.



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

On March 22, 2005, the Government of India passed the Patents (Amendment) Bill, 2005 (the “2005 Amendment”), introducing a product patent regime for food, chemicals and pharmaceuticals in India. The 2005 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 anyone other than the patent holder and its assignees and licensees. This has resulted in a reduction of new product introductions in India 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 2005 Amendment, so no additional impact results from patenting of such processes.

Under the present drug policy of the Government of India, certain drugs have been specified under the Drugs (Prices Control) Order, 2013 (the “DPCO”) as subject to price control. The Government of India established the National Pharmaceutical Pricing Authority, 2012 (“NPPA”), to control pharmaceutical prices. Under the DPCO, the NPPA has the authority to fix the maximum selling price for specified products.

During the year ended March 31, 2013, the Department of Pharmaceuticals under the ministry of Chemicals and Fertilizers of the Government of India proposed the National Pharmaceuticals Pricing Policy, 2012, a revised national Pharmaceutical Pricing policy to apply price controls to 348 drugs listed in National List of Essential Medicines. Some of our formulation products were subject to these price controls. The National List of Essential Medicines, as revised in 2016, now contains 376 drugs.

On June 30, 2017, the NPPA announced revisions of the maximum prices for various products scheduled in the National List of Essential Medicines on account of the GST implementation in India. This was followed by an announcement on April 2, 2018 of an increase in the maximum prices of various drugs, as a result of positive inflation as measured by India’s Wholesale Price Index.

On March 12, 2016, the Department of Health and Family Welfare under the Ministry of Health and Family Welfare of the Government of India banned 344 fixed dose combination drugs (i.e., two or more active drugs combined in a fixed ratio into a single dosage). A number of pharmaceutical companies, including us, filed a writ petition before the Delhi High Court challenging the ban. The Delhi High Court initially granted an interim stay on the ban notification and on December 1, 2016, it overturned the government imposed ban on the 344 fixed dosage combinations. Subsequently, the Government of India filed an appeal of the decision in the Supreme Court of India. In December 2017, the Supreme Court of India referred the issue to the government’s expert body, the Drugs Technical Advisory Board (“DTAB”), for a fresh review of safety, efficacy and therapeutic justification of the drugs before recommending

action. Currently, the DTAB is in the process of examination. In the event that this ban becomes effective, it could adversely impact our revenues.

Such ongoing price control changes, product bans and other changes can disrupt the Indian branded pharmaceutical market and negatively impact the revenues and profitability of our Indian business and our company.

### ***Russia and other Countries of the former Soviet Union***

#### *Russia*

Russia accounted for 11% of our Global Generics segment's revenues in the year ended March 31, 2018. IMS Health ranked us 18<sup>th</sup> in sales in Russia, with a market share of 1.5% for the twelve months ended March 31, 2018.

According to IMS Health, as per its moving annual total report for the twelve months ended March 31, 2018, our sales value growth was 3.0% and our sales volume decreased by 1.5% for such period, as compared to the Russian pharmaceutical market value growth of 3.3% and sales volume decrease of 2.1% for such period. We were the top ranked Indian pharmaceutical company in Russia for such period.

Our top five brands, Nise, Omez, Ketorol, Ibuclin and Cetrine, accounted for 56% of our Global Generics segment's revenues in Russia for the year ended March 31, 2018. Omez (an anti-ulcerant product), Nise and Ketorol (both pain management products), Cetrine (a respiratory product) and Ibuclin (pain management product) were ranked as the 59<sup>th</sup>, 21<sup>st</sup>, 160<sup>th</sup>, 189<sup>th</sup> and 230<sup>th</sup> best-selling formulation brands, respectively, in the Russian market by IMS Health in its moving retail segment report for the twelve months ended March 31, 2018.

Our strategy in Russia is to focus on the gastro-intestinal, pain management, anti-infectives, respiratory, oncology and cardiovascular therapeutic areas. Our focus is on building leading brands in these therapeutic areas in prescription, over-the-counter and hospital sales. Nise, Omez, Ketorol, Cetrine, Ibuclin, Novigan, Plagril, Razo, Levolet and Ciprolet continue to be brand leaders in their respective categories, as reported by IMS Health in its moving report for the twelve months ended March 31, 2018.

Our Global Generics segment's revenues in Russia increased by 4% (in Russian rouble absolute currency terms) during the year ended March 31, 2018, which was driven by increased marketing and pharmacy chain activities for over-the-counter medicines. Such revenues, measured in Indian rupees, increased by 9% as compared to the year ended March 31, 2017.

#### *Other Countries of the former Soviet Union and Romania*

We operate in other countries of the former Soviet Union, including Ukraine, Kazakhstan, Belarus, Uzbekistan and Romania. For the year ended March 31, 2018, revenues from these countries accounted for 4% of our total Global Generics segment's revenues.

#### Sales, marketing and distribution network

Our marketing and promotion efforts in our Russian prescription division is driven by a team of 308 medical representatives and 42 managers to detail our products to doctors in 77 cities in Russia.

Our Russian over-the-counter ("OTC") division has 212 medical representatives and 30 managers and is focused on establishing a network of relationships with key pharmacy chains and individual pharmacies. Our Russian hospital division has 40 hospital specialists and 18 key account managers, and is focused on expanding our presence in hospitals and institutes.

In Russia, we generally extend credit only to customers after they have established a satisfactory history of payment with us. The credit terms offered to 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 on a periodic basis and modify them to take into account the macro-economic scenario in Russia.



## Competition

Our principal competitors in the Russian market include Gedeon Richter RUS (an affiliate of Gedeon Richter PLC), Krka Pharma Limited, Teva, Lek-Sandoz Pharmaceuticals (an affiliate of Novartis Pharma A.G.), Zao Ranbaxy (an affiliate of Ranbaxy Laboratories Limited), Nycomed International Management GmbH and Zentiva N.V. (an affiliate of Sanofi-Aventis S.A.).

## Government regulations

### *Healthcare system development in Russia*

In order to promote local industry, in October 2009 the Russian government announced the Strategy of Pharmaceutical Industry Development in the Russian Federation for the period up to the year 2020 (or the “Pharma 2020 plan”), which aims to develop the research, development and manufacturing of pharmaceutical products by Russia’s domestic pharmaceutical industry. The goal of the Pharma 2020 plan is to reduce Russia’s reliance on imported pharmaceutical products and increase Russia’s self-sufficiency in that regard.

The Russian government approved the State Program for Healthcare System Development on December 26, 2017. The objectives of this program are increasing life expectancy at birth, reducing mortality of the working-age population, reducing mortality from circulatory diseases and tumors (including malignant ones) and raising medical care quality satisfaction.

### *Reference pricing regime*

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”). During the year ended March 31, 2011, the Russian government announced price re-registration in local currency (Russian roubles) for drugs categorized as “essential” and the new registered prices were effective as of December 10, 2010. Also, effective as of September 1, 2010, the price controls on certain drugs categorized as “non-essential” were removed by the Russian Ministry of Health.

For the past several years, the Russian Ministry of Industry and Trade has enacted and renewed short term government regulations under which local manufacturers (i.e., in Russia, Belarus and Kazakhstan) get a 15% price preference over non-local manufacturers in procurement tenders by the state.

In 2017, a draft of “Rules for State registration and re-registration of the maximum ex-works manufacturer prices of medicines included in EDL” was published by the Russian Ministry of Health. However, there remains ambiguity on the final form of the document or implementation period and we are in the process of evaluating the impact of these changes on our operations even as we await further clarity on this draft law.

*State Regulation of Prices for Vital and Essential Medicines*

Russia's Federal Law No. 34-FZ dated March 8, 2015 amended the Federal Law 61-FZ "On Circulation of Medicines". The amendments created new rules for the registration, manufacture and quality control of medicines, including new rules for the calculation and registration of the maximum retail prices of vital and essential medicines established by the ZhNVLS (the "EDL").

Calculation of the maximum sale price for medicines included in the EDL list is determined by the Government of the Russian Federation taking into account a variety of economic and/or social criteria. The updated EDL lists for 2018, approved by the Decree of the Government No. 2323-p dated October 23, 2017, became effective from January 1, 2018. These lists include the list of drugs for provision to specific groups of citizens, medicines prescribed by a decision of a medical commission of medical organizations, medical supplies from the 7 Nosologies program list (which covers expensive treatments for patients with certain severe chronic diseases), as well as the minimum range of medicines required for medical aid.

*Restrictions on access of foreign drugs*

In 2015, the Russian Government enacted the Priority Action Plan for sustainable economic and social stability development and regulation No. 128. This plan and regulation affects medicines included in the EDL, and some of their key terms that have impacted the pharmaceutical industry are (i) supporting import substitution; (ii) optimizing budget costs and reducing inefficient expenses; and (iii) restrictions on access of foreign drugs to state procurement tenders, if two or more locally manufactured drugs participate in the relevant tender.

*Interactions between healthcare professionals and medical product companies*

During the year ended March 31, 2012, Russia introduced Federal Law # 323, titled "On the Foundations of Healthcare for Russian Citizens". This law imposes stringent restrictions on interactions between (i) healthcare professionals, pharmacists, healthcare management organizations, opinion leaders (both governmental and from the private sector) and certain other parties (collectively referred to as "healthcare decision makers") and (ii) companies that produce or distribute drugs or medical equipment (collectively referred to as "medical product companies") and any representatives or intermediaries acting on their behalf (collectively referred to as "medical product representatives"). Some of the key provisions of this law are prohibitions on:

one-on-one meetings and communications between healthcare professionals and medical product representatives, except for participation in clinical trials, pharmacovigilance, group educational events and certain other limited exceptions approved by Russia's Healthcare Organization Administration;

the acceptance by a healthcare professional of compensation, gifts or entertainment paid by medical product representatives;

the agreement by a healthcare professional to prescribe or recommend a drug product or medical equipment; or

the engagement by a healthcare decision maker in a "conflict of interest" transaction with a medical product representative, unless approved by regulators pursuant to certain specified procedures.

At the end of 2013, the State Duma (i.e., the lower chamber of the Russian parliament) adopted a series of amendments to various healthcare related laws. Among other things, the "Law on Medicines" was amended to add regulations restricting interactions between medical product representatives with medical professionals in connection with events sponsored by medical product companies. Under these regulations, in the event that medical product companies wish to sponsor certain scientific, medical education or similar events, they are required to disclose the date, place and time of the event and the plans, programs and agendas for discussion. Disclosure is to be made by publishing appropriate information on their official websites not later than two months before the indicated events, and the same information shall also be sent to Russia's Federal Healthcare Service (Roszdravnadzor).

Liability for non-compliance with such restrictions extends to both the healthcare professional and the medical product representative. Except for requiring the disclosure of information on conflicts of interest, no specific liability has been currently prescribed for medical product companies.

On July 2, 2013, the Ministry of Health of the Government of Russia published an order on its website that binds physicians to prescribe medicinal products by International Nonproprietary Name (i.e., active substance) or by combination list (which combines different International Nonproprietary Names in one treatment group).

*Russia signed the agreement on a common market for medicines within the Eurasian Economic Union*

The Eurasian Economic Union (“EEU”), whose member states are Russia, Belarus, Kazakhstan, Armenia, and Kyrgyzstan, officially started functioning on January 1, 2015. Among other things, the member states of the EEU signed an international agreement establishing common principles and rules of functioning of the market for medicines within the EEU. According to the agreement, the market authorization for a particular medicine received in one EEU member state will be valid throughout the whole EEU territory. On May 6, 2017, the agreement was ratified by the EEU countries. Manufacturers of the EEU countries will be able to apply for re-registration of medicines under common procedures and reduce administrative costs. All medicines registered under the national regulations of the individual EEU member states on or before to December 31, 2020 shall be re-registered under the regulations of the EEU common market on or before December 31, 2025.

*Russian GMP required for medicines registration*

Effective January 1, 2016, foreign medicinal products (i.e., manufactured outside of Russia) became subject to the following requirements:

for the initial state registration of a foreign medicinal product, it is required to present a statement of conformity of the manufacture thereof to Russian GMP standards issued by a Russian authority; and

for re-registration of a foreign medicinal product, it was sufficient to present a certificate of GMP compliance (obtained in the country of origin) to the applicable GMP standards in the country of origin, issued by the relevant foreign authority with a certified Russian translation. However, effective January 1, 2017, re-registrations of a foreign medicinal product also are subject to the requirement to present a document regarding conformity to Russian GMP standards issued by a Russian authority.

*Monitoring System of Movement of Medicines from the Producer to the Final Consumer*

The Ministry of Health in Russia has proposed a full serialization system to track and trace the passage of pharmaceuticals through the entire supply chain, from the manufacturers to the end users. The proposed federal repository and tracking system would provide the manufacturers, supply chain and end users of pharmaceuticals many functionalities. Listed below are some of the functions that would be available in addition to the usual authentication and track and trace services:

- the system would provide price controls on products designated as vital and essential medicines;

consumers would be able to compare the price of the drug to its official price limit, find which pharmacies do have the drug available, and get the product information.;

- manufacturers would be able to get real time data on the logistics and storage of their products in the market;

- pharmacists could get information related to the price, and monitor expiration dates;

- health care institutions would be able to track registration and prices; and

federal agencies would have capability to monitor all medicinal products on the market to facilitate price controls as well as report on and analyze the industry.

Marketing application holders for medicinal products are required to file registration information for the track-and-trace system with the Russian governing body by January 1, 2019. The provisions on manufacturers' obligations to label the package with the identification marks, to submit the data to the monitoring system as well as the terms governing liability for non-compliance will become effective starting January 1, 2020.

#### *Medicines promo and sales*

In December 2017, the Russian State Duma Committee on Health approved the draft law on "On Amendments to Certain Legislative Acts of the Russian Federation regarding Remote Retail Trade of Pharmaceuticals", which regulates online retail sales of pharmaceuticals. Under the draft, a pharmacy (including a veterinarian pharmacy) may sell via the internet only OTC pharmaceuticals and only if a valid pharmaceutical license is held. Online sales of prescription drugs is prohibited, and websites breaching this requirement shall be banned.

Further, the Russian Ministry of Industry and Trade posted the draft law "On Amendments to Certain Legislative Acts of the Russian Federation regarding Sale of Medicines by Retail Trade Organizations" for public discussion. As per the draft, retailers will have to obtain a pharmaceutical license to be able to sell OTC drugs in stores and supermarkets.

### Political Instability

There has been severe political instability in Ukraine following civilian riots and political unrest which began in November 2013, destabilization of the Ukrainian President's office in February 2014, and subsequent military action in the destabilized country operating under a temporary government.

As a result of ongoing conflict in the region, the United States and the European Union have imposed sanctions on certain designated individuals and companies in Ukraine and Russia. These sanctions were targeted at persons threatening the peace and security of Ukraine, senior officials of the Government of the Russian Federation and the energy, defense and financial services sectors of Russia, but they have had macroeconomic consequences beyond those persons and industries. In December 2014, the United States imposed further sanctions aimed at blocking new investments in the Crimea region of Ukraine which was annexed by Russia, and blocking trade between the United States or U.S. persons and Crimea. These sanctions also authorized the United States government to impose sanctions on any U.S. persons determined to be operating in the Crimea region of Ukraine, subject to certain authorizations for the export and re-export of certain agricultural commodities, medicine, medical supplies, and replacement parts to Crimea.

Political instability in the region has led to significant devaluation of the Russian rouble. In addition, the Ukrainian hryvnia experienced significant devaluation in 2014 and 2015. The possibility of additional sanctions implemented by the United States and/or the European Union against Russia or vice versa, continued political instability, civil strife, deteriorating macroeconomic conditions and actual or threatened military action in the region may result in serious economic challenges in Ukraine, Russia and the surrounding areas.

Among our operations, we are engaged in sales, distribution and marketing of pharmaceutical products in Russia and Ukraine, including the Crimea region, all through non-U.S. entities that sell to distributors. Our sales in Russia and Ukraine are not to any of the individuals, companies or sectors designated by the current sanctions, and our sales in the Crimea region accounted for approximately 0.1% of our total revenues for the year ended March 31, 2018. We do not believe that our business in Russia, Ukraine or the Crimea region violates any of the current sanctions. However, relevant regulators could take a view that is different from ours on this issue. We continue to monitor our subsidiaries' activities in light of the restrictions imposed by these and any future sanctions.

### *North America (the United States and Canada)*

During the year ended March 31, 2018, North America (the United States and Canada) accounted for 53% of our total Global Generics segment sales. In the United States, we sell generic drugs that 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 or Health Canada, as applicable, 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. Generic pharmaceutical companies sometimes conduct “at-risk launches”, in which sales of the product are launched prior to resolution of a patent challenge.

Generic pharmaceutical sales increased significantly in the last decade, primarily due to an increased awareness and acceptance among consumers, physicians and pharmacists that generic drugs are the equivalent of brand name drugs, substantial cost savings and an encouragement by governments through passage of legislation permitting generic drug alternatives. However, in the last two years an increase in competition and consolidation of distributors has resulted in a decline in the growth of the generic companies in North America. We intend to continue building our presence in the region by leveraging our product development capabilities and alliance management, manufacturing capacities inspected by various international regulatory agencies and access to our own APIs, which offer significant supply chain efficiencies.

*Key acquisitions in North America:*

In April 2008, we acquired BASF’s pharmaceutical contract manufacturing business and related facility in Shreveport, Louisiana, U.S.A. The acquisition included the relevant business, customer contracts, certain supplier contracts, related Abbreviated New Drug Applications (“ANDAs”) and New Drug Applications (“NDAs”), trademarks, as well as the manufacturing facility and assets owned by BASF in Shreveport, Louisiana. The facility is designed to manufacture solid, semi-solid and liquid dosage forms.

Further, in March 2011, we acquired from GlaxoSmithKline plc and Glaxo Group Limited (collectively, “GSK”) a penicillin-based antibiotics manufacturing site in Bristol, Tennessee, U.S.A. and certain related antibiotic product rights. The acquisition enabled us to enter the U.S. oral antibiotics market with a comprehensive product filing and a dedicated manufacturing site.



During the years ended March 31, 2018, and 2017, we continued our efforts to grow the Habitrol® business (an over-the-counter Nicotine Replacement Therapy transdermal patch) that we acquired from Novartis Consumer Healthcare Inc. during the year ended March 31, 2015, having fully integrated the business. The Habitrol® business has shown healthy growth as a result of our expansion of distribution into new channels and our product innovations. We believe that there are significant growth opportunities in the smoking cessation category in the United States, and intend to continue growing the business through our focus on expansion in availability and portfolio augmentation.

Additionally, during the year ended March 31, 2017 we acquired from Ducere Pharma the rights to six over-the-counter brand products within the cough-and-cold, pain, and dermatology therapeutic areas, including Doan's, Bufferin and Nupercainal.

Through 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, 2018, we made 19 new ANDA filings with the U.S. FDA. As of March 31, 2018 our cumulative filings were 284, which includes 4 NDA filings under section 505(b)(2) and 280 ANDA filings. These 280 ANDA filings include 8 ANDAs that we acquired from Teva and an affiliate of Allergan plc. As of March 31, 2018, we had 110 filings pending approval with the U.S. FDA (107 ANDAs and 3 NDAs under 505(b)(2) route including 14 tentative approvals). Of the 107 ANDAs which are pending approval, 63 are Paragraph IV filings, and we believe that we are the first to file with respect to 30 of these filings. Further, these 107 ANDAs which are pending for approval include 6 ANDAs acquired from Teva and Allergan plc's affiliate, of which 5 are Paragraph IV filings.

Our Canada business generated revenues of Rs.545 million during the year ended March 31, 2018. This business includes revenues from certain profit sharing arrangements with distributors who market certain of our generic products. As of March 31, 2018 we have filed a cumulative total of 30 Abbreviated New Drug Submissions ("ANDS") in Canada, out of which, 20 were approved, 6 are pending approval, and 4 were withdrawn or rejected.

### Sales, Marketing and Distribution Network

Dr. Reddy's Laboratories, Inc., our wholly-owned subsidiary headquartered in Princeton, New Jersey, United States, is primarily engaged in the marketing of our generic products in the United States. 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 procurement buyers for chain drug stores, drug wholesalers and distributors, mass merchandisers, group purchasing organizations ("GPOs") for hospitals, specialty distributors and pharmacy buying groups.

The majority of revenue from our North America generics business is derived from sales of oral solids, as well as sales of various products (both oral solids and others) to retail chains. This portion of the business represents nearly three quarters of this segment's gross revenues for this region. The product portfolio includes a wide range of therapeutic areas. During the year ended March 31, 2017, we acquired from Teva and an affiliate of Allergan plc a portfolio of eight ANDAs for our North American Generics business. The transaction, valued at \$350 million, represents the largest assets acquisition in our history.

Our over-the-counter ("OTC") division primarily markets and distributes store brand OTC products, but expanded into the branded OTC segment in May 2016, developing a new channel for our growth. This division has successfully launched over 10 products. OTC products include store brand generic equivalents of products that originally have prescription drug status and are switched to OTC drug status by the innovator upon U.S. FDA approval (sometimes called "Rx-to-OTC switch" products). Our entry into the OTC branded division in May 2016 was through the acquisition from Ducere Pharma of the rights to six OTC brand products, including Doan's, Bufferin and Nupercainal. Our OTC division services a broad range of customers, including drug retailers, mass merchandisers, food chains, drug wholesalers and distributors, and GPOs. For the year ended March 31, 2018, our OTC division generated Rs.10,332 million in revenues.

A portion of our revenue is derived from the sale of injectable products in the therapeutic areas of oncology and critical care. Our injectable product portfolio in the United States primarily consists of products such as azacitidine, decitabine, zoledronic acid, doxorubicin liposomal and bivalrudin. We have also expanded our presence from drug wholesalers to specialty distributors, integrated distribution networks ("IDNs"), clinics, and hospitals to market these products. We also supply products for private label customers for injectable prescription products.

### 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 manufacturer to receive regulatory approval for generic equivalents of such products is generally able to achieve significant market penetration. As competing 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 dependent upon the number of competitors 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, consistent and reliable product supplies, customer service and reputation. Our major competitors in the United States include Teva, Mylan Inc., Sandoz (a division of Novartis Pharma A.G.), Endo International plc (including its subsidiaries Endo Pharmaceuticals Inc. and Par Pharmaceutical Inc.), Sun Pharmaceuticals Limited, Lupin Limited and Aurobindo Pharma Limited.

Continued consolidation of customer purchasing power through acquisitions, alliances and joint ventures continues to intensify the competition and drive down prices. Consolidation of manufacturers is also continuing and, at the same time, new manufacturers continue to enter the generic market in the United States, which may further lower our pricing power and adversely affect our revenues in that market.

Brand name manufacturers have devised numerous strategies to delay competition by introducing 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 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 in 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.

The U.S. market for OTC pharmaceutical products is highly competitive. Competition is based on a variety of factors, including price, quality, product mix, customer service, marketing support, and the reliability and flexibility of the supply chain for products. Our competition in store brand and innovator branded products in the United States consists of several publicly traded and privately owned companies, including large brand-name pharmaceutical companies. The competition is highly fragmented in terms of both geographic market coverage and product categories, such that a competitor generally does not compete across all product lines. In the store brand market, we compete directly with companies, such as Perrigo, Apotex, Aurobindo Pharma that sell store brand OTC products. In the branded market, we compete directly with companies, such as Bayer and Pfizer, which sell branded OTC products.

With the acquisition of Habitrol®, we now not only compete with store brands but also with large branded companies such as GlaxoSmithKline Consumer Care, which is an industry leader in the nicotine replacement therapy category. In addition, since a majority of our products are generic equivalents of innovator brands, we also compete against large brand-name pharmaceutical companies.

The competitive landscape and market dynamics of the OTC market are rapidly evolving. Large brand-name pharmaceutical companies have begun to more aggressively pursue Rx-to-OTC switches in new categories, which could present opportunities for us and other companies that sell store brand products. At the same time, pricing pressures continue to increase with the entry of new competitors in the market. On key select molecules, the expectation is that competition in this area will continue to grow as newer categories experience Rx-to-OTC switches.

#### 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 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 approval process is abbreviated because the U.S. FDA waives the requirement of conducting complete clinical studies, although it generally 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 its manufacture, use or sales thereof 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 starting from either the first commercial marketing of the drug by any of the first applicants or a decision of a court holding the patent that is the subject of the paragraph IV certification to be 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 there are no patents listed 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.

Before approving a product, the U.S. 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 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.

The “pediatric exclusivity” program under The Best Pharmaceuticals for Children Act provides a six-month period of extended exclusivity, applicable to certain listed patents and to other regulatory exclusivities for all formulations of an active ingredient, if the sponsor performs and submits pediatric studies requested by the FDA within specified timeframes. An effect of this program has been to delay the launch of numerous generic products by an additional six months.

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 where the first Paragraph IV certification was submitted on or after December 8, 2003.

Under the revised 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 or a decision of a court holding the patent that is the subject of the paragraph IV certification to be invalid or not infringed.

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 such act 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.

The federal Controlled Substances Act (the “CSA”) and its implementing regulations establish a closed system of controlled substance distribution for legitimate handlers. The CSA imposes registration, security, recordkeeping and reporting, storage, manufacturing, distribution, importation and other requirements upon legitimate handlers under the oversight of the U.S. Drug Enforcement Administration (the “DEA”). The DEA categorizes controlled substances into one of five schedules — Schedule I, II, III, IV, or V — with varying qualifications for listing in each schedule. Facilities that manufacture, distribute, import or export any controlled substance must register annually with the DEA. The DEA inspects manufacturing facilities to review security, record keeping and reporting and handling prior to issuing a controlled substance registration. Failure to maintain compliance with applicable requirements, particularly as manifested in the loss or diversion of controlled substances, can result in enforcement action, such as civil penalties, refusal to renew necessary registrations, or the initiation of proceedings to revoke those registrations. In certain circumstances, violations could lead to criminal prosecution.

*Food and Drug Administration Safety and Innovation Act, Generic Drug User Fee Act, Biosimilar User Fee Act and Food and Drug Administration Reauthorization Act*

In 2012, the United States enacted the Food and Drug Administration Safety and Innovation Act (“FDASIA”), a landmark legislation intended to enhance the safety and security of the U.S. drug supply chain by imposing stricter oversight and by holding all drug manufacturers supplying products to the United States to the same U.S. FDA inspection standards. Specifically, prior to the passage of FDASIA, U.S. law required U.S. based manufacturers to be inspected by the U.S. FDA every two years but remained silent with respect to foreign manufacturers, causing some foreign manufacturers to go as many as nine years without a routine U.S. FDA cGMP inspection, according to the Government Accountability Office. FDASIA requires foreign manufacturers to have cGMP inspections at least every two years, or more frequently for manufacturers with high risk profiles.

FDASIA also includes the Generic Drug User Fee Act (“GDUFA”) and Biosimilar User Fee Act (“BuFA”), programs to provide the U.S. FDA with additional funds through user fees imposed on generic and biosimilar products. Under GDUFA, total fees are derived primarily from facility fees paid by finished dosage form manufacturers and active pharmaceutical ingredient facilities listed or referenced in a pending or approved generic drug application. A significant portion is also derived from application fees, including generic drug application fees, prior approval supplement fees and drug master file fees.

The FDA Reauthorization Act of 2017 (“FDARA”) and the GDUFA Amendments (“GDUFA II”), signed into law on August 18, 2017, extended the user fee program for a period of another five years through September, 2022. Under the provisions of these acts, an additional generic drug applicant program fee will be established, which will be based on the number of ANDAs the applicant holds and the prior approval supplement fees will be eliminated. Of the total GDUFA user fee revenue, 35% will be generated from this ANDA-based fee. Further, the GDUFA II commitment letter describes a consolidated review goals scheme for all cohorts of ANDAs, prior approval supplements and amendments. This includes shorter review goals for generic drug submissions that are public health priorities.

The establishment of dedicated biosimilar fees was also intended to help ensure that the U.S. FDA has appropriate resources for managing the introduction of biosimilar products on the U.S. market. Under the FDARA, for the first time, an independent fee structure for biosimilars will be implemented, including an initial biosimilar development fee which will be assessed the first year a manufacturer begins clinical trials. Further, an annual biosimilar development fee for subsequent years of the development process, a biosimilar program fee for approved biosimilars, and an application fee for new biosimilar applications will be introduced. The legislation also reauthorizes several programs that are designed to simplify and expedite the regulatory process for the development of drugs and devices that aid patients with rare diseases.

In addition, under the FDARA, a drug is eligible for designation as a “Competitive Generic Therapy” if the U.S. FDA determines that there is inadequate generic competition i.e., with respect to a drug, there is not more than one approved drug on the list of drugs described in section 505(j)(7)(A) (not including drugs on the discontinued section of such list) that is (a) the reference listed drug; or (b) a generic drug with the same reference listed drug as the drug for which designation as a competitive generic therapy is sought.

As part of GDUFA II, in order to accelerate access to generic version of complex products, GDUFA II pre-ANDA program product development meetings can be initiated by the U.S. FDA for an ongoing ANDA development program for complex products. These meetings will encourage applicants for product development meetings, pre-submission meetings and mid-review cycle meetings to clarify regulatory expectations early in product development. Furthermore, in November 2017, the Manual of Policy and Procedures (“MAPP”) 5240.3, “Review Order of Original ANDAs, Amendments, and Supplements” was revised to MAPP 5240.4, “Prioritization of the Review of Original ANDAs, Amendments and Supplements” under which a priority review may be granted by the U.S. FDA if an original ANDA, amendment, or supplement meets one of the prioritization factors set forth in the MAPP, and may receive either a shorter goal date or an expedited review, as defined in the MAPP.

#### *Withdrawal of U.S. FDA Proposed Labeling Rule*

On November 13, 2013, the U.S. FDA proposed a new labeling rule which the agency believed would speed up the dissemination of new safety information about generic drugs to health professionals and patients by allowing generic drug manufacturers to use the same process as brand drug manufacturers to update safety information in the product labeling. Under the proposal, generic drug manufacturers would have been able to independently update product labeling (also called prescribing information or package inserts) with newly-acquired safety information before the U.S. FDA’s review of the change, in the same way brand drug manufacturers do today. Generic manufacturers would also have been required to inform the brand name manufacturer about the change. The U.S. FDA would then have evaluated whether the proposed change was justified and made an approval decision on the generic drug labeling change and the corresponding brand drug labeling change at the same time, so that brand and generic drug products would ultimately have the same U.S. FDA-approved prescribing information.



Currently, generic manufacturers must wait to update product safety information until the corresponding brand name product has received approval to update its safety information. Brand drug manufacturers are allowed to independently update and promptly distribute updated safety information by submitting a “changes being effected” (“CBE”) supplement to the U.S. FDA. Generic manufacturers must notify the U.S. FDA of new safety information, and wait for the U.S. FDA and the brand manufacturer to determine the updated labeling, which may result in a delay in getting new information to health care professionals and patients.

Under current law, generic and brand drug manufacturers are required to promptly review safety information about their drugs and comply with the U.S. FDA’s reporting and recordkeeping requirements. When new information becomes available that causes the product labeling to be inaccurate, all drug manufacturers must take steps to update the labeling.

Because the current regulatory scheme only permits a generic manufacturer to use the CBE process to update its label if the branded drug manufacturer changes its label first, this can prevent generic manufacturers from complying with state law warning requirements. As a result, state product liability suits based on failure-to-warn and design defect claims against generics manufacturers have generally been held pre-empted by Federal law, and in June 2013 the United States Supreme Court upheld such pre-emption and immunity of generic manufacturers in *Mutual Pharmaceutical Co. v. Bartlett*.

If the U.S. FDA’s proposed new rule was adopted, it may have eliminated this pre-emption and increased our potential exposure to lawsuits relating to product safety, side effects and warnings on labels. This new potential exposure to lawsuits may also have increased the risk that, in the future, we would not have been able to obtain the type and amount of insurance coverage we desire at an acceptable price and self-insurance may have become the sole commercially reasonable means available for managing the product liability risks of our business. After twice delaying publication of a final rule, the U.S. FDA withdrew its proposed rule during 2017.

#### *Prescription Drug Marketing Act and Laws Regulating Payments to Healthcare Professionals*

The FDA also enforces the requirements of the Prescription Drug Marketing Act, which, among other things, imposes various requirements in connection with the distribution of product samples to physicians. Sales, marketing and scientific/educational grant programs must comply with the federal anti-kickback statute, the Medicare-Medicaid Anti-Fraud and Abuse Act, as amended, the False Claims Act, as amended, and similar state laws. Pricing and rebate programs must comply with the Medicaid rebate requirements of the Omnibus Budget Reconciliation Act of 1990, as amended. We are also subject to Section 6002 of the Patient Protection and Affordable Care Act, commonly known as the Physician Payment Sunshine Act which regulates disclosure of payments to certain healthcare professionals and providers.

*Patient Protection and Affordable Care Act and Medicaid Drug Rebate Program*

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 significantly impacts the U.S. pharmaceutical industry. The PPACA imposes additional rebates, discounts and fees, mandates certain reporting and contains various other requirements that affect our business. The PPACA made several important changes to the federal anti-kickback statute, false claims laws, and health care fraud statutes that made it easier for the government or whistleblowers to pursue such fraud and abuse violations. In addition, the PPACA increased 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.

The PPACA changed the computations used to determine Medicaid rebates owed by manufacturers under the Medicaid Drug Rebate Program by redefining the average manufacturer’s price (“AMP”). In November 2015, the Bipartisan Budget Act of 2015 (the “BBA”) amended the Medicaid Drug Rebate Program to impose a penalty rebate on generic drugs whose price increases exceed the inflation rate. Initially, the penalty rebate had only applied to brand drugs and authorized generics, but other generic drugs were subject to a fixed base rebate of 13% of AMP. The BBA imposed a price increase penalty rebate on generic drugs similar to that of the price increase penalty on brand drugs and authorized generics. The additional penalty rebate for generic drugs applies to rebate periods beginning with the first quarter of 2017. The additional penalty rebate due for generic drugs is equal to the AMP for the current quarter minus the baseline AMP adjusted for inflation based upon the Consumer Price Index for Urban Consumers.

The PPACA also increased the number of healthcare organizations eligible to participate in the Public Health Service pharmaceutical pricing program, which provides for government controlled prices that result in substantial discounts for participants. To further facilitate the government’s efforts to coordinate and develop comparative clinical effectiveness research, the PPACA established 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 PPACA has created an abbreviated pathway to U.S. FDA approval of “biosimilar” biological products and allows the first interchangeable biosimilar biological product 18 months of exclusivity, which could increase competition for our biosimilars business. The PPACA also has some anti-generic provisions that could adversely affect our biosimilars 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.

On February 1, 2016, the CMS published in the Federal Register a Final Regulation with comment period to implement the Medicaid Drug Rebate Program. The Final Regulation was to clarify ambiguities in the ACA amendments. The key provisions covered under the Final Regulation included, without limitation, the following: (i) the adoption of a final definition of “retail community pharmacy” (“RCP”), (ii) the adoption of a rule permitting inhalation, infusion, instilled, implanted, or injectable drugs (“5i drugs”) to be deemed not to be “generally dispensed” through a RCP, and thus excluded from the calculation of their AMP, if 70% or more of its sales were to entities other than RCPs or wholesalers for drugs distributed to RCPs (the prior threshold was 90%), (iii) the inclusion of authorized generics in calculations of AMP and best price, (iv) narrowing the regulatory definition for “best price”, (v) requiring additional Medicaid rebate payments for generic drugs, effective as of April 1, 2017, and (vi) clarification of the definition of “bona fide service fees” based on a four part test. We are still awaiting guidance from CMS on two aspects of the rule that were deferred for later implementation. These include a definition of what constitutes a product “line extension” and a delay in the participation of the U.S. territories in the Medicaid Drug Rebate Program until April 1, 2020. We will evaluate the financial impact of these two elements when they become effective.

In 2017, the new U.S. Presidential administration, which had promised to repeal and replace the PPACA, took office in the United States. Although legislative proposals in 2017 to repeal and replace the PPACA in 2017 were never enacted, there are ongoing efforts to achieve that goal. For example, in October 2017, the U.S. President signed an Executive Order directing federal agencies to modify how the PPACA is implemented, ending the subsidies to health care insurance companies that sell insurance to low income consumers through state health insurance marketplaces. Further, the Tax Cuts and Jobs Act enacted in December 2017 effectively repealed the PPACA’s individual mandate by removing the penalties imposed for failure to purchase healthcare insurance. This may have the impact of reducing the number of insured as well as coverage for pharmaceutical products. We cannot predict the ultimate effect of the reform on our business, and additional policy changes disruptive to the PPACA exchange markets could arise.

#### *Drug Quality and Security Act*

On November 28, 2013, the Drug Quality and Security Act was signed into law in the United States. The legislation introduces a federal track-and-trace system for medicines with serial numbers added to individual packs and (non-mixed) cases within four years of the legislation’s adoption, and electronic tracing of production through the supply chain mandated within ten years. It also strengthens licensure requirements for wholesale distributors and third-party logistics providers, and requires the U.S. FDA to maintain a database of wholesalers that will be available to the public through its website. The law also boosts oversight of compounding pharmacies that make drugs to order, and increases the powers of the U.S. FDA to oversee large-volume or ‘outsourcing’ compounders without individual

prescriptions. During 2017, the U.S. FDA delayed the enforcement of serialization requirements for manufacturers until November 2018 to provide manufacturers with additional time to comply and avoid supply disruptions. We are working to meet these requirements on a timely basis.

*Title XI of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA)*

On October 6, 2016, the U.S. FDA issued a final rule to implement new regulations that govern the approval of 505(b)(2) applications and ANDAs. This rule revises and clarifies U.S. FDA regulations as to matters such as: the procedures and requirements for providing notice to each patent owner and the NDA holder of certain patent certifications made by applicants submitting 505(b)(2) applications or ANDAs; the availability of 30-month stays of approval on 505(b)(2) applications and ANDAs that are otherwise ready to be approved; submission of amendments and supplements to 505(b)(2) applications and ANDAs; and the types of bioavailability and bioequivalence data that can be used to support these applications. This rule was effective December 5, 2016.

*Biologics Pathway*

The Biologics Price Competition and Innovation Act of 2009 (“BPCIA”) created a statutory pathway and abbreviated approval processes for the approval of biosimilar versions of branded biological products. Under the BPCIA, a biosimilar must be highly similar with no clinically meaningful differences compared to the reference medicine. Approval of a biosimilar in the United States requires the submission of a Biologics License Application (“BLA”) to the U.S. FDA, including an assessment of immunogenicity, and pharmacokinetics or pharmacodynamics. The BLA for a biosimilar can be submitted as soon as four years after the initial approval of the reference biologic, but can only be approved 12 years after the initial approval of the reference biologic. This pathway is still relatively new and some aspects remain untried, controversial and subject to ongoing litigation. Though the U.S. FDA has issued and updated various technical guidance documents addressing quality considerations, scientific considerations and questions and answers regarding commonly posed issues to assist the biopharmaceutical industry in developing biosimilar products in compliance with the BPCIA, there remains some uncertainty regarding the abbreviated biosimilar pathway.

*21st Century Cures Act*

On December 13, 2016, the 21st Century Cures Act was enacted into law in the United States, and is intended to promote biomedical innovation and personalized medicines. The 21st Century Cures Act includes increased funding for the National Institutes of Health and the U.S. FDA and provides for the implementation of, among other reforms, enhanced pathways for medical product approval and the modernization and harmonization of clinical trial procedures over a period of several years.

*Blueprint to Lower Drug Prices*

In May 2018, U.S. President Trump released “American Patients First: The Trump Administration Blueprint to Lower Drug Prices and Reduce Out-of-Pocket Costs,” which outlines actions that his administration proposes to take to lower prescription drug prices, including certain actions that can be taken immediately by the U.S. Department of Health and Human Services (“HHS”) and issues on which HHS will solicit public feedback before determining any additional reform proposals. This blueprint seeks to increase competition, improve negotiation, incentivize lower list prices and lower out-of-pocket costs. It calls for, among other things, greater transparency of drug prices, better informing consumers about prescription drugs, increased promotion of generic drugs and experimenting with value-based payment. We are currently evaluating the impact of this blueprint on our business, and we cannot yet be certain what the effect will be.

*Other matters*

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

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

*Subpeona duces tecum from the Office of the Attorney General, California*

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

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

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

*State Attorneys General Civil Actions in the United States*

On December 18, 2016, the Attorneys General for 19 states filed claims in the United States District Court for the District of Connecticut against a number of pharmaceutical companies alleging conspiracies to fix prices and to allocate bids and customers from 2013 through at least 2016, with respect to two generic drugs for which our company and our U.S. subsidiaries were not named as defendants.

In April 2017, a total of 45 states, plus the District of Columbia and the Commonwealth of Puerto Rico, joined as plaintiffs in this case (the "State AG Action"). In August 2017, the State AG Action was transferred and consolidated with the private plaintiff class actions pending in the multi-district litigation (MDL-2724) in the United States District Court for the Eastern District of Pennsylvania. On October 31, 2017, the Attorneys General for the 45 States, plus the District of Columbia and the Commonwealth of Puerto Rico, filed an Amended Complaint in the State AG Action in MDL-2724 which has added our U.S. subsidiary as a defendant. The State AG Action alleges that our subsidiary and other named defendants engaged in a conspiracy to fix prices and to allocate bids and customers in the sale of generic zoledronic acid and meprobamate in the United States, and alleges an over-arching conspiracy with the defendants on the other 13 drugs named in the State AG Amended Complaint. The State AG Amended Complaint alleges violations of Section 1 of the Sherman Act, 15 U.S.C. §1, and the consumer and antitrust laws of 45 states, the District of Columbia and the Commonwealth of Puerto Rico, seeking injunctive relief, recovery of treble damages, attorney's fees and other costs. We deny any wrongdoing and intend to vigorously defend against these claims.

*Civil Investigative Demand from the Division of the U.S DOJ*

On May 15, 2018, Dr. Reddy's Laboratories, Inc. received a Civil Investigative Demand from the Civil Division of the U.S. DOJ, enquiring whether there have been any violations of the U.S. False Claims Act, arising from allegations that generic pharmaceutical manufacturers, including us, have engaged in market allocation or price fixing agreements, or paid illegal remuneration, and caused false claims to be submitted in violation of the said Act. We intend to fully cooperate with the DOJ in responding to the demand and cooperate with the investigation.

*Canada Regulatory Environment*

In Canada, we are required to file product dossiers with the Health Canada for permission to market a generic pharmaceutical product. The regulatory authorities may inspect our manufacturing facility before approval of the dossier. As of March 31, 2018, we had filed a total of 30 Abbreviated New Drug Submissions ("ANDS") in Canada, out of which 20 were approved, 6 are pending approval, and 4 were withdrawn or rejected.

*Europe*

Our sales of generic medicines in Europe for the year ended March 31, 2018 were Rs.8,217 million, which accounted for 7% of our Global Generics segment's sales. Our principal markets in Europe are Germany and the United Kingdom. We have also established our presence in other markets, including Italy, France and Spain.

Sales, Marketing and Distribution Network

*Germany*

In Germany, we sell a broad range of generic pharmaceutical products under the "betapharm" brand.

Over the last decade, the German pharmaceutical market has significantly changed. Health care reforms by the government have significantly increased the power of insurance companies and statutory health insurance funds ("SHI

funds”) to influence dispensing of medicines. Pursuant to the reforms, those pharmaceutical products which are covered by rebate contracts with insurance companies and SHI funds will be prescribed by physicians and dispensed by pharmacies with priority. As a result, many SHI funds have enacted tender (i.e., competitive bidding) processes to determine which pharmaceutical companies they will enter into rebate contracts with. This has resulted in more than 90% of generic products currently sold in German retail outlets being supplied through contracts procured in competitive bidding tenders, thereby causing significant pressure on product margins.

#### *United Kingdom and other Countries within Europe*

We market our generic products in the United Kingdom and other European Union (“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 sell more than 50 products in the United Kingdom, covering both International Nonproprietary Name (“INN”) generics and branded generics. INN generics are sold via wholesale and retail channels, and hospitals. In the U.K., we work closely with the Clinical Commissioning Groups (i.e., groups that commission healthcare services for their local communities and include all of the general practitioner groups in their geographical area) to promote our range of branded generics. Whilst the retail business covers a broad range of therapeutic areas, the hospital business focuses mainly on oncology, anti-infectives and HIV.

In 2016, we established a commercial structure in Italy, Spain and France to expand our direct footprint in the western European region. Our initial focus has been to supply products through hospitals and to institutional clients. Our product mix in these markets focuses on a limited number of key therapy areas such as oncology, anti-infectives and HIV, leveraging our portfolio. This market’s business is predominantly tender-driven, without the need for a large sales force.

#### Competition

The German market is highly competitive as a result of a large number of generic players and the predominance of a tender system which drives competition. Our key competitors within the German generics market include Sandoz International GmbH, Teva Pharmaceutical Industries Limited (“Teva”), Winthrop Arzneimittel GmbH and Stada Arzneimittel AG.

According to the British Generic Manufacturers Association, the United Kingdom is one of the largest markets for generic pharmaceuticals in Europe, with generic penetration of around 84%, and is also one of the most price competitive markets due to a high degree of vertical integration and consolidation of buyers, as more than 65% of the retail pharmacies are owned by wholesalers or are part of retail chains, and has low barriers of entry. The market is dominated by global pharmaceutical companies such as Teva, the Sandoz group of Novartis Pharma A.G. and Mylan Inc.





In Italy, Spain and France, we compete with companies such as Hospira (an affiliate of Pfizer Limited), Fresenius SE & Co. KGaA, Teva and Accord Healthcare Limited (an affiliate of Intas Pharmaceuticals Ltd.), each of which has a well-established presence in the hospital segment of these countries.

### Government regulations

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 and manufactured in accordance with applicable law. The registration file relating to any particular product must contain scientific 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. Regulatory authorities are authorized to suspend, restrict or 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.

The activities of pharmaceutical companies within the EU are governed in particular by Directives 2001/83/EC and 2003/94/EC, as amended, and as implemented in national laws within the countries of the EU. These Directives outline the legislative framework, including the legal basis of marketing authorization procedures, and quality standards including manufacture, patient information and pharmacovigilance activities.

Prior approval of a marketing authorization is required to supply products within the EU. Such marketing authorizations may be restricted to one member state, cover a selection of member states or can be for the whole of the EU, depending upon the form of registration procedure selected.

An abridged application can be filed for obtaining EU marketing authorization for a generic drug. Generic or abridged applications contain limited non-clinical and clinical data, depending upon the legal basis of the application or to address a specific issue. However, 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 interchangeable to the innovator product with respect to quality, safe usage and continued efficacy. EU laws prevent regulatory authorities from accepting applications for approval of generics that rely on the safety and efficacy data of an innovator of a branded product until the expiration of the innovator's data exclusivity period (usually 8 years from the first marketing authorization in the EU, depending on the circumstances). The applicant is also required to demonstrate bioequivalence with the EU reference product. Once all these criteria are met, a marketing authorization may be considered for grant.

Unlike in the United States, there is no equivalent regulatory mechanism within the EU to incentivize challenge to 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.

Our U.K. facilities are licensed and periodically inspected by the U.K. Medicines and Healthcare products Regulatory Agencies (“MHRA”) good manufacturing practice Inspectorate, which has extensive enforcement powers over the activities of pharmaceutical manufacturers. Non-compliance can result in product recall, plant closure or other penalties and restrictions. In addition, the U.K. MHRA Inspectorate has approved and periodically inspected our manufacturing facilities based in Hyderabad, Telangana, India for the manufacture of generic medicines for supply to Europe.

All pharmaceutical companies that manufacture and market human medicinal products in Germany are subject to the applicable rules and regulations executed by the Federal Institute for Drugs and Medical devices (“BfArM”) or the Paul-Ehrlich-Institut (“PEI”) and the supervisory authorities of the respective federal state in Germany. All pharmaceutical companies in Germany are periodically inspected by the Regierung von Oberbayern (the district government of Upper Bavaria in Germany), which has extensive enforcement powers over the activities of pharmaceutical companies. Non-compliance can result in closure of the facility. The Regierung von Oberbayern has also inspected our plants in Hyderabad and Visakhapatnam.

In Germany, the government has in the past decade enacted a number of laws designed to limit pharmaceutical cost increases. During the fiscal year ended March 31, 2011, the German government introduced a new law entitled “Act on the reorganization of the pharmaceutical market in the public health insurance” (or “*Arzneimittelmarktneuordnungsgesetz*”, commonly referred to as “AMNOG”), which affects reimbursement of drugs within Germany’s statutory health care system in order to further control the costs of medical care. The key elements of this law are as follows:

Historically, the pharmaceutical companies had been free to set the initial asking price for novel drugs in the German public health system, subject to certain mandatory rebates. Under this new law, a pharmaceutical company determines the price for a new drug or new therapeutic indication for the first year after launch, but must submit to the Joint Federal Committee (the Gemeinsamer Bundesausschuss or “G-BA”) a benefit/risk assessment dossier on the drug at or prior to its launch. The G-BA analyzes whether the drug shows an additional clinical benefit in comparison to a corresponding established drug (the “appropriate comparator therapy”).

If an additional benefit is established, the pharmaceutical company must negotiate the price of the drug with the Federal Association of the health insurance funds. If no agreement is reached in the negotiation, then the price is determined pursuant to an arbitration procedure. There must be a minimum term of one year.

If no additional benefit is established, the drug is immediately included in a group of drugs with comparable pharmaceutical and therapeutic characteristics, for which maximum reimbursement prices have already been set. If this is not possible due to the drug's novelty, then the pharmaceutical company must negotiate a reimbursement price with the Federal Association of the health insurance funds that may not exceed the costs of the appropriate comparator therapy.

The prices determined pursuant to the above procedures also apply to private insurance agencies, privately insured persons and self-payers, although they may negotiate further discounts.

For drugs developed specifically to treat rare medical conditions that are designated as "orphan drugs", the orphan drug will be presumed to have an additional benefit under certain circumstances.

A new regulation for packaging size had to be implemented in 2013. Standard sizes are now based upon the duration of therapies, instead of being based on fixed quantity. Three different types of package sizes are now allowed: N1-packages for treatment periods of 10 days; N2-packages for treatment periods of 30 days; and N3-packages for treatment periods of 100 days.

The law increases the choice to patients by the use of co-payment as an option for patients opting for a non-rebated generic drug.

In Germany, the German Drug Law (Arzneimittelgesetz) ("AMG"), which implements EU requirements, is the primary regulation applicable to medicinal products. In 2012, the 16<sup>th</sup> Amendment to the AMG and related laws were enacted in order to implement European Directives into national laws. Among other things, the most important changes refer to pharmacovigilance, clinical trials, protection measures against counterfeited medicines and liberalization of German drug advertising law. These transpositions of EU legislation into national law also took place in the United Kingdom.

The German Social Code's price freeze imposed on reimbursable drugs, which was due to expire at the end of 2017, was extended until December 31, 2022 for all patent free drugs launched before August 1, 2010, although the continued price freeze will not apply to medicines subject to internal reference pricing.

New European pharmacovigilance legislation (Regulation (EU) No 1235/2010 and Directive 2010/84/EU) was enacted in July 2012. These new requirements have not yet been fully implemented. Implementation of the final

stages, specifically new obligations for safety signal management, will increase our administrative burdens and therefore our costs. In 2015, the European Commission introduced pharmacovigilance service fees that our industry pays for the simplification and maintenance of the European pharmacovigilance system, as well as fees for the assessment of aggregate safety reports and protocols and study reports mandated following a safety referral. The service fees payable for these reports are unpredictable, as the Pharmacovigilance Risk Assessment Committee (“PRAC”) of the European Medicine Agency (“EMA”) can initiate a safety referral for any medicine or class of medicines with a significant new safety concern at any time. The costs of such a referral and the consequent costs of any recommendation, such as restrictions on use, cannot be predicted.

The International Standards for Identification of Medicinal Products (“IDMP”), comprised of five International Organization for Standardization (“ISO”) standards, were approved in 2012. These standards are designed to allow unambiguous identification of medicinal products across companies and regions in order to support and improve pharmacovigilance and other activities. Full implementation of these standards in the EU has been deferred, but will be implemented in a phased approach for medicinal product information starting in mid-2018.

The submission of medicinal product data to support pharmacovigilance has been required since 2012 in the EU. The original European database for data regarding medicinal products, the Eudravigilance Medicinal Product Dictionary (“EVMPD”), was launched by the EMA at the end of 2001. It was designed to standardize the collection, reporting, coding, and evaluation of authorized and investigational medicinal product information. In 2012 it became mandatory for marketing-authorization holders to supply information to the extended version of the EVMPD (xEVMPD or Article 57 database). However, this currently contains only a fraction of the data that eventually will have to be submitted to the IDMP-compliant database for each authorized product in the EU. In order for us to support the maintenance of medicinal product data in the IDMP-compliant database, we are investing in new systems and will have to make significant changes to our processes and procedures.

In order to prevent counterfeit medicines entering into the supply chain, in October 2015, as part of the Falsified Medicines Directive, the European Commission adopted regulations providing detailed rules for the safety features appearing on the packaging of medicinal products for human use. Accordingly, all medicinal products generally subject to prescription must bear safety features that facilitate specifically the identification of individual packs and the verification of their authenticity. Effective as of February 9, 2019, only those prescription drugs which have a unique serial number on the pack, and where the integrity of the pack can be seen, may be marketed in all EU countries. Manufacturers shall be required to put a unique identifier code, in human readable form and in an encrypted two-dimensional matrix, on all secondary packages and shall also be required to include an "anti-tampering device" safety feature on packages to enable the verification of whether the packaging of a medicinal product has been tampered with. Marketing authorization holders shall upload the serial numbers, along with other product information, to a "EU Hub" operated by the European Medicines Verification Organisation ("EMVO"). End users (e.g., pharmacies and wholesalers) shall be required to verify and decommission the identifier code before handing over the package to the patient. We have invested significantly in machinery, technology and know-how, and are cooperating with relevant international partners, to ensure our timely readiness for implementation without impacting the supply of our products.

The impact of the decision for the United Kingdom to exit from the EU (the "Brexit") on pharmacovigilance operations is unclear at this stage. The U.K. pharmaceutical industry and the U.K. MHRA have expressed their desire to continue as full participants in the harmonized pharmacovigilance activities of the EU and the EMA. However, which activities and procedures will remain accessible to the U.K. marketing authorization holders ("MAHs") post Brexit are only likely to become clear as the negotiations between the U.K. government and the European Commission near their conclusion. If full access to the pharmacovigilance activities of the EU and the EMA is not available to U.K. MAHs post Brexit, the U.K. MHRA may have to introduce parallel processes in the U.K. which might result in increased costs to the MAHs.

Following the Brexit vote, the EU has decided to move the headquarters of the EMA from the U.K. to the Netherlands by March 2019. It is expected that a significant percentage of the current employees of the EMA will decide not to make the move to the Netherlands. This raises the possibility that new drug approvals in the EU could be delayed as a result.

#### ***"Rest of the World" markets of our Global Generics segment***

We refer to all markets of our Global Generics segment other than North America, Europe, Russia and other countries of the former Soviet Union and Romania and India as our "Rest of the World" markets. Our significant Rest of the World markets include South Africa, Australia, Brazil, Colombia and Myanmar. Our revenues from our "Rest of the World" markets were Rs.6,126 million in the year ended March 31, 2018, an increase of 5% as compared to the year ended March 31, 2017. This increase in sales was primarily attributable to our entry in new markets during the year.

*Collaboration agreement with Merck Serono*

On June 6, 2012, we entered into a collaboration agreement with the biosimilars division of Merck KGaA, Darmstadt, Germany, formerly known as Merck Serono (hereinafter, “Merck KGaA”), to co-develop a portfolio of biosimilar compounds in oncology, primarily focused on monoclonal antibodies. The arrangement covers co-development, manufacturing and commercialization of the compounds around the globe, with some specific country exceptions.

During the year ended March 31, 2016, the collaboration agreement was amended to rearrange and realign the development of compounds, territory rights and royalty payments. Both parties undertook commercialization based on their respective regional rights as defined in the agreement. We lead and support early product development towards or including Phase 1 development. Merck KGaA carries out manufacturing of the compounds and leads further development for its territories. In our exclusive and co-exclusive territories, we carry out our own development, wherever applicable, for commercialization. We will continue to receive royalty payments upon commercialization by Merck KGaA in its territories.

During the year ended March 31, 2016, we received from Merck KGaA certain amounts relating to its share of development costs and other amounts linked to the achievement of milestones for the development of compounds under the collaboration agreement, as amended. Furthermore, during the year ended March 31, 2017, we received from Merck KGaA payments of U.S.\$1 million towards achievement of a milestone for the development of a compound under the collaboration agreement.

On September 1, 2017, Fresenius Kabi acquired the biosimilars business of Merck KgaA. Since then, our collaboration has continued as planned with Fresenius Kabi.

Global Generics Manufacturing and Raw Materials

Manufacturing for our Global Generics segment entails converting API into finished dosages. As of March 31, 2018, we had twelve manufacturing facilities within this segment. Ten of these facilities are located in India and two are located in the United States (Shreveport, Louisiana; and Bristol, Tennessee). In addition, we also have one packaging facility in the United Kingdom. All of the facilities are designed in accordance with and are compliant with current cGMP requirements and are used for the manufacture of tablets, hard gelatin capsules, injections, liquids and creams for sale in India as well as other markets. All of our manufacturing sites’ laboratories and facilities are designed and maintained to meet increasingly stringent requirements of safety and quality. All of our sites outside of India are approved by the respective regulatory bodies in the jurisdictions where they are located.

We manufacture most of our finished products at these facilities and also use contract manufacturing arrangements as we determine necessary. For each of our products, we continue to identify, upgrade and develop alternate vendors as

part of risk mitigation and continual improvement.



The ingredients for the manufacture of the finished products are sourced from in-house API manufacturing facilities and from vendors, both local and non-local. Each of these vendors undergo a thorough assessment as part of the vendor qualification process before they qualify as an approved source. 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. Arrangements with international raw material suppliers are subject to, among other things, respective country regulations, various import duties and other government clearances.

The prices of our raw materials generally fluctuate in line with commodity cycles. Raw material expense forms the largest portion of our cost of revenues. We evaluate and manage our commodity price risk exposure through our operating procedures and sourcing policies.

The logistics services for storage and distribution in the United States, the European Union, Russia, South Africa, Australia and other emerging markets are outsourced to a third party service provider.

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, to take advantage of certain fiscal benefits offered by the Government of India, which includes partial exemption from income taxes for a specified period.

All pharmaceutical manufacturers that sell products in any country are subject to regulations issued by the Ministry of Health (or its equivalent) 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 German BfARM, the South African Medicines Control Council, the Brazilian ANVISA, the Romanian National Medicines Agency, Ukrainian State Pharmacological Center, the local World Health Organization and Drug Control Authority of India, all of which have extensive enforcement powers over the activities of pharmaceutical manufacturers operating within their jurisdiction.

In November 2015, we received a warning letter from the U.S. FDA relating to violations at our injectible oncology formulation manufacturing facility at Duvvada, Visakhapatnam, Andhra Pradesh. Refer to Item 4.A. "History and development of the company – Key business developments – Re-Audit of the warning letter impacted sites" for further details.

#### **Pharmaceutical Services and Active Ingredients ("PSAI") segment**

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

Our PSAI segment’s revenues for the year ended March 31, 2018 were Rs.21,992 million, an increase of 3% as compared to the year ended March 31, 2017. Our PSAI segment accounted for 16% of our total revenues for the year ended March 31, 2018.

During the year ended March 31, 2018, we filed 73 Drug Master Files (“DMFs”) worldwide, of which 12 were filed in the United States, 3 were filed in Europe and 58 were filed in other countries. Cumulatively, our total DMFs filed worldwide as of March 31, 2018 were 882, including 207 DMFs filed in the United States.

We produce and market more than 100 different APIs for numerous markets. Our 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 manufacturing generic products, subject to any patent rights of other third parties. We export API to more than 80 countries, and our principal overseas markets in this business segment include North America (the United States and Canada) and Europe. 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 polymorphs), providing research intended to reduce the cost of production of our products and developing new products.

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 Innovator pharmaceutical and fine chemicals industry. 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 quickly and more efficiently. The focus is to leverage our skills in process development, analytical development, formulation development and Current Good Manufacturing Practice (“cGMP”) 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

*Developed Markets.* Our PSAI segment's principal overseas markets are the United States and Europe. Our PSAI segment's sales to these markets were Rs.11,274 million for the year ended March 31, 2018, and accounted for 51% of our PSAI segment's revenues for the year ended March 31, 2018. In the United States and Europe, the patent protection for a large number of high value branded pharmaceutical products expired in years ended March 31, 2011, 2012 and 2013 and this opened the market to generic products that sourced their API from our PSAI segment. However, during the years ended March 31, 2014 through March 31, 2018, such expirations were much less frequent, which resulted in a decrease in new opportunities in these markets for the customers of our PSAI segment. We market our products 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.

*Other Key Markets.* India is an important market for our PSAI segment, with total sales of Rs.1,858 million, and it accounted for 9% of the PSAI segment's revenues in the year ended March 31, 2018. In India, we market our API products to Indian and multinational companies, many of whom are also our competitors in our Global Generics segment. The market in India is highly competitive, with severe pricing pressure and competition from lower cost foreign imports in several products.

Our PSAI segment's sales to all of the other markets (excluding the United States, Europe and India) was Rs.8,860 million for the year ended March 31, 2018 and accounted for 40% of our PSAI segment's revenues for the year. Our PSAI segment's other key markets include Brazil, Mexico, China and Japan. 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.

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.

Going forward, we expect our PSAI segment to show growth on account of our investments in newer technologies and platforms. We are also pursuing a partnership model to enable our customers to reach more markets faster and efficiently by leveraging our cost leadership and presence across the globe.

### PSAI Manufacturing

The infrastructure for our PSAI segment consists of nine U.S. FDA-inspected plants (seven in India, including one in a Special Economic Zone, one in Mexico, and one in Mirfield, United Kingdom) and three technology development centers (two in Hyderabad, India and one in Cambridge, United Kingdom).

*India.* All of our facilities in India are located in the states of Andhra Pradesh and Telangana. 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.

In November 2015, we received a warning letter from the U.S. FDA relating to cGMP deviations at our API manufacturing facilities at Miryalguda, Telangana and Srikakulam, Andhra Pradesh. Refer to item 4.A. “History and development of the company – Key business developments – Re-Audit of the warning letter impacted sites” for further details.

*Mexico.* Our manufacturing plant in Cuernavaca, Mexico (the “Mexico facility”) was acquired from Roche during the year ended March 31, 2006. In addition to active pharmaceutical ingredients, naproxen and naproxen sodium and a range of intermediates, the Mexico facility manufactures steroids as active ingredients for use in human and veterinary pharmaceutical products.

*United Kingdom.* Our 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. 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.

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, India. 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 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. We also offer end to end project management support for effective deliveries.

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.

#### Raw Materials

Raw material expense forms the largest portion of our cost of revenues. Raw materials consist of fine chemicals, bulk chemicals, solvents, catalysts, and basic and advanced intermediates. The prices of these raw materials generally fluctuate in line with commodity cycles, demand supply situations and changes to government policies. We evaluate and manage our commodity price risk exposure through periodical supply contracts as well as agile and responsive sourcing procedures.

#### Competition

The global API market can broadly be divided into regulated and less regulated markets. The less regulated markets offer low entry barriers in terms of regulatory requirements and intellectual property rights. The regulated markets, like the United States and Europe, have high entry barriers in terms of intellectual property rights and regulatory requirements, including facility approvals. As a result, there is a premium for quality and regulatory compliance along with relatively greater stability for both volumes and prices. 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 Divis Laboratories Limited, Aurobindo Pharma Limited, Cipla Limited, Mylan Laboratories Limited, Sun Pharmaceutical Industries Limited and MSN Laboratories Limited, all based or operating 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 research and manufacturing is a significant opportunity for Indian pharmaceutical companies, based on their strengths of a skilled workforce and low-cost manufacturing infrastructure. Key competitors in India include Divis Laboratories Limited, Dishman Pharmaceuticals & Chemicals Limited and Piramal Enterprises Ltd. Key competitors from outside India include Lonza Group, AMRI Inc., Patheon Inc., Catalent Inc., Cambrex Inc., and WuXi PharmaTech. We distinguish ourselves from Indian competitors by offering a wider range of services spanning the entire pharmaceutical value chain. The inspection of our CPS facility in Hyderabad, India was completed by the U.S. FDA on September 21, 2017 with zero observations, and the U.S. FDA issued an establishment inspection report in December 2017. This facility also follows rigorous Safety and Information Security practices and is certified against ISO 27001:2013 standards for information security. For competitors from outside India, we distinguish ourselves through cost effectiveness. Keeping on par with the advancements in technology and changing needs of the innovator and mid-sized pharmaceutical companies, we are positioning ourselves in niche technologies. With growth in contract research and manufacturing services likely to be driven by increased outsourcing by medium size pharmaceutical companies, particularly those focused on biotechnology and therapy, we expect India to emerge as an alliance and outsourcing destination of choice due to speed, skill and cost advantage.

#### 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, recordkeeping, 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.

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 cGMP. The manufacturing facilities and production procedures must meet U.S. FDA standards.

All of our manufacturing facilities are inspected and approved by the U.S. FDA. For European markets, we submit a European DMF and, wherever applicable, obtain a certificate of suitability from European Directorate for the Quality of Medicines.

### **Proprietary Products Segment**

Our Proprietary Products segment focuses on the research, development, and manufacture of differentiated formulations. These novel products fall within the dermatology and neurology therapeutic areas and are marketed and sold through Promius® Pharma, LLC.

We continue to leverage our semi-virtual research and development model to expand our portfolio of specialty formulation products. Our efforts primarily focus on repurposing or improving the clinical properties of already approved and well-characterized API for application in the dermatologic and neurologic disease areas. We achieve this by utilizing internal resources as well as efficiently collaborating with leading technology and platform based companies and service providers, tapping into their expertise areas across different phases of the development process. We continue to progress towards building a diversified portfolio with a sustainable mix of branded proprietary formulations generated through research and development with significantly reduced fixed costs.

Our research and development efforts have a unique “medicines-to-molecules” approach to product development. In this approach, we identify areas of medical need and then leverage in an integrated manner the disciplines of biology, chemistry, drug delivery, clinical development, regulatory and commercial positioning to develop differentiated formulations.

Our research and development model is both in-house and virtual (i.e., operations are outsourced, subject to our supervision of strategic and project management functions), and follows these core principles:

- develop creative research and development investment models and partnerships to access external innovation focused on leveraging, rather than replicating, unique core competencies;

- select assets based on potential for early risk mitigation, both with respect to product development and commercialization; and

leverage knowledge and presence in emerging markets (India and other developing countries) to maximize cost advantages.

Our principal research laboratory is based in Hyderabad, India. As of March 31, 2018, we employed a total of 171 scientists, including 35 scientists who hold Ph.D. degrees and six with M.D. degrees. We pursue an integrated research strategy through a mix of translational, formulation and analytical research at our laboratories. We focus on discovery of new molecular targets, design of assays to screen promising molecules and development of novel formulations of currently marketed drugs or combinations thereof to address unmet medical needs.

While we develop novel agents ourselves, we continue to seek licensing and development opportunities with third parties to further expand our product pipeline. Our goal is to balance the development of our own product candidates with in-licensing of promising compounds that complement our product offering. We also pursue licensing and joint development of some of our lead compounds with companies looking to enhance their own product portfolio.



Pipeline Status

As of March 31, 2018, we had 13 active product development programs in our pipeline. In January and February 2016, we received U.S. FDA approval of our New Drug Applications (each, a “NDA”) for two products – our dermatology product Sernivo® and our neurology product Zembrace®. Both products were launched in the U.S. market during the year ended March 31, 2017. In May and November 2017, we received U.S. FDA approval for two dermatology products – DFD-10 (minocycline hydrochloride) and DFD-06 (Impoyz™ (clobetasol propionate)) cream. DFD-06 is out-licensed to Encore Dermatology Inc.

The details of our products in Phase 3 and the products for which an NDA has been filed with the U.S FDA as of March 31, 2018 are as follows:

| <b>Compound</b>   | <b>DFN-02 (Sumatriptan intranasal spray)</b>   | <b>DFD-11 (Xeglyze™)</b>   |
|---|--|--|
| <b>Therapeutic Area</b>                                 | Neuroscience   | Pediatrics   |
| <b>Indication</b>                                       | Acute treatment of migraines, with or without aura in adults.  | Treatment of head lice in patients 6 months of age or older.   |
| <b>Significant developments during the period</b>       | Pivotal bioequivalence studies were completed. Patient safety studies and efficacy studies have been completed.<br>Patents (including those granted to the development partner) expiring as follows: | The NDA was initially filed by Hatchtech in September 2015; ownership was transferred to us in December 2015.  |
| <b>Significant patents associated with the compound</b> | <ul style="list-style-type: none"> <li>· U.S.A. - 2031;</li> <li>· All other countries - 2030</li> </ul> Further, patent applications are pending in certain other countries along with the U.S.A.   | Three patents were granted in the U.S.A., with estimated expiration in 2026. Patents were also granted in Australia, Canada, India, and New Zealand. Some other patent applications are pending in certain countries, including the U.S.A. |
| <b>Current status/ expected NDA filing*</b>             | NDA was submitted in March 2018.   | NDA was submitted in September 2015 and we received a complete response letter (“CRL”) from the U.S. FDA in August 2016. We are in the process of submitting our response to the CRL.  |

[Continued from prior table, first column repeated]

|   |   |   |
|---|---|---|
| <b>Compound</b>   | <b>PPC-06 (Tepilamide Fumarate)</b>   | <b>E7777</b>  |
| <b>Therapeutic Area</b>                                 | Dermatology   | Hematology-Oncology   |
| <b>Indication</b>                                       | Treatment of plaque psoriasis in patients 18 years of age or older.   | Treatment of Cutaneous T Cell Lymphoma.   |
| <b>Significant developments during the period</b>       | This is a NCE program in-licensed from Xenoport Inc. (which was subsequently acquired by Arbor Pharmaceuticals). Phase 2 is completed. Five patents were granted, with estimated expiration of the last such patents in 2029. In addition, one notice of allowance has been received. | This is an anti-cancer biologic agent in-licensed from EISAI limited.                                     |
| <b>Significant patents associated with the compound</b> | Patents were also granted in multiple other countries such as Australia, China, Europe, Japan and Russia, with estimated expiration in 2029. There are also other patent applications pending in the U.S.A. and some other countries.   | None.   |
| <b>Current status/ expected NDA filing*</b>             | Phase 2b studies are being executed.  | Phase 3 is in process. Submission of a biologics license application to the U.S. FDA is planned for 2019. |

[Continued from prior table, first column repeated]

|   |   |  |
|---|---|--|
| <b>Compound</b>   | <b>DFD-03 (Tazarotene Lotion)</b>   | <b>DFN-15 (Celecoxib Oral Solution)</b>                                  |
| <b>Therapeutic Area</b>                                 | Dermatology   | Neurology  |
| <b>Indication</b>                                       | Treatment of acne vulgaris.   | Treatment of migraines in adults with or without aura.                   |
| <b>Significant developments during the period</b>       | Phase 3 and other supporting studies were under progress during the year. | Phase 3 clinical studies were completed and analysis was under progress. |
| <b>Significant patents associated with the compound</b> | Two patent were granted in the U.S.                                       | Three patents were granted in the U.S.                                   |
| <b>Current status/ expected NDA filing*</b>             | NDA is expected to be filed in 2019.                                      | NDA expected to be filed in 2018/19.                                     |

The timelines for expected filing may change due to various factors, including outcome of Phase 3 studies, \*completion of Integrated Summary of Safety/Integrated Summary of Effectiveness (“ISS/ISE”), outcome of stability data and internal reprioritization of portfolio.

*Patents.* Our Proprietary Products segment had the following patent applications filed and patents granted as of March 31, 2018:

| Category                         | USPTO <sup>(1)</sup> | USPTO <sup>(1)</sup> | PCT <sup>(2)</sup> | India     | India       |
|----------------------------------|----------------------|----------------------|--------------------|-----------|-------------|
|                                  | (# Filed)            | (# Granted)          | (# Filed)          | (# Filed) | (# Granted) |
| Anti-diabetic                    | 85                   | 17                   | 62                 | 117       | 45          |
| Anti-cancer                      | 18                   | 11                   | 14                 | 45        | 15          |
| Anti-bacterial                   | 8                    | 7                    | 10                 | 22        | 4           |
| Anti-inflammation/cardiovascular | 47                   | 27                   | 35                 | 26        | 3           |
| Anti-ulcerant                    | 1                    | 1                    | -                  | 1         | -           |
| Miscellaneous                    | 20                   | 18                   | 4                  | 27        | 8           |
| Differentiated formulations      | 53                   | 29                   | 24                 | 49        | 1           |
| Total                            | 232                  | 110                  | 149                | 287       | 76          |

(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.

### Competition

The pharmaceutical and biotechnology industries are highly competitive. We face intense competition from organizations such as large and small pharmaceutical companies and biotechnology companies. 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 from 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 nonclinical and clinical testing and other approval procedures by the relevant regulatory agency. The requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement vary widely from country to country.

In order to market a drug in the United States, we or our partners are 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.

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

| <b>Stage of Development</b> | <b>Description</b>  |
|-----------------------------|---|
| Nonclinical                 | Animal studies and laboratory tests to evaluate safety and efficacy, demonstrate activity of a product candidate and identify its chemical and physical properties. |
| Phase 1                     | Clinical studies to test safety and pharmacokinetic profile of a drug in normal human subjects.   |
| Phase 2                     | Clinical studies conducted with groups of patients to determine preliminary efficacy, dosage and expanded evidence of safety.                                       |
| Phase 3                     | 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. Nonclinical 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 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 (“IRBs”) or Ethics Committees (“ECs”), 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.

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 are required to file a 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 are 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.

*Promius Pharma LLC*

Promius Pharma LLC (“Promius Pharma”), our subsidiary based in Princeton, New Jersey in the United States, conducts our U.S. Specialty business, which is engaged in the promotion and sale of branded specialty products in the therapeutic areas of dermatology and neurology.

In addition to its existing portfolio of proprietary and licensed dermatology and neurology products, Promius Pharma also has a pipeline of dermatology and neurology products that are in different stages of development. Promius Pharma’s current portfolio contains innovative products for the treatment of seborrheic dermatitis, psoriasis, acne and steroid responsive dermatoses. The following are the products commercialized by Promius Pharma:

| <b>Product</b>                                     | <b>For treatment of</b>  |
|--|--|
| Promiseb®  | Seborrheic dermatitis  |
| Cloderm® (clocortolone pivalate 0.1%)              | Corticosteroid-responsive dermatoses   |
| Trianex®   | Inflammatory and pruritic manifestations of corticosteroid-responsive dermatoses |
| Zembrace® SymTouch® (subcutaneous sumatriptan 3mg) | Autoinjector for treatment of migraine headaches                                 |
| Sernivo® (betamethasone propionate, 0.05%)         | Mild to moderate plaque psoriasis  |

Promius Pharma leverages our research, development and manufacturing facilities in Hyderabad, India. Promius Pharma also works with various third party research organizations in conducting product development, non-clinical and clinical studies. Manufacturing is also outsourced to reputable contract manufacturing organizations in the United States and Europe. Both of Promius Pharma’s commercial groups - dermatology and neurology have the support of teams spanning marketing, sales operations, market access and medical affairs. The dermatology and neurology teams are comprised of 133 marketing, sales, and market access and operations professionals.

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

Dr. Reddy’s Laboratories Limited is the parent company in our group. Refer to Note 43 of our consolidated financial statements for a list of our subsidiaries and joint ventures.

4.D. *Property, plant and equipment*

Our principal executive offices are located in Hyderabad, Telangana, India. Our business operates through a number of subsidiaries having offices, research facilities and production sites throughout the world. The following table sets forth current information relating to our principal facilities:

| Sl No. | Name/Location   | Approximate           |                                       |
|--------|---|-----------------------|---------------------------------------|
|        |   | Area<br>(Square feet) | Segments Which Primarily Use          |
|        | Within India  |                       |                                       |
| 1      | API Hyderabad Plant 1, Telangana, India                         | 645,995               | Global Generics and PSAI              |
| 2      | API Hyderabad Plant 2, Telangana, India                         | 781,379               | Global Generics and PSAI              |
| 3      | API Hyderabad Plant 3, Telangana, India                         | 644,805               | Global Generics and PSAI              |
| 4      | API Hyderabad Plant 4, Telangana, India                         | 189,343               | Global Generics and PSAI              |
| 5      | API Nalgonda Plant, Telangana, India                            | 3,397,680             | Global Generics and PSAI              |
| 6      | API Srikakulam Plant, Andhra Pradesh, India                     | 4,027,688             | Global Generics and PSAI              |
| 7      | API Srikakulam Plant (SEZ), Andhra Pradesh, India               | 9,917,739             | Global Generics and PSAI              |
| 8      | Technology Development Centre Hyderabad 1, Telangana, India     | 113,256               | Global Generics and PSAI              |
| 9      | Technology Development Centre Hyderabad 2, Telangana, India     | 68,825                | Global Generics and PSAI              |
| 10     | Formulations Hyderabad Plant 1, Telangana, India                | 271,379               | Global Generics                       |
| 11     | Formulations Hyderabad Plant 2, Telangana, India                | 3,207,826             | Global Generics                       |
| 12     | Formulations Baddi Plant 1, Himachal Pradesh, India             | 728,234               | Global Generics                       |
| 13     | Formulations Baddi Plant 2, Himachal Pradesh, India             | 381,342               | Global Generics                       |
| 14     | Biologics Hyderabad, Telangana, India                           | 795,841               | Global Generics                       |
| 15     | Formulations Hyderabad Plant 3, Telangana, India                | 1,539,089             | Global Generics                       |
| 16     | Formulations Srikakulam Plant 1 (SEZ), Andhra Pradesh, India    | 879,041               | Global Generics                       |
| 17     | Formulations Srikakulam Plant 2 (SEZ), Andhra Pradesh, India    | 334,105               | Global Generics                       |
| 18     | Formulations Srikakulam Plant 11, Andhra Pradesh, India         | 8,611                 | Global Generics                       |
| 19     | Formulations Visakhapatnam Plant 1 (SEZ), Andhra Pradesh, India | 582,206               | Global Generics                       |
| 20     | Formulations Visakhapatnam Plant 2 (SEZ), Andhra Pradesh, India | 544,322               | Global Generics                       |
| 21     | ADTL Hyderabad, Telangana, India                                | 187,308               | Others                                |
| 22     | ADTL Bengaluru, Karnataka, India                                | 689,216               | Others                                |
| 23     | Integrated Product Development Center, Bengaluru, India         | 29,500                | Others                                |
| 24     | Integrated Product Development Center, Telangana, India         | 103,350               | Global Generics, PSAI and Proprietary |

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| Outside India |   |           |                          |
|---------------|---|-----------|--------------------------|
| 25            | API Cuernavaca Plant, Mexico  | 2,361,840 | Global Generics and PSAI |
| 26            | API Mirfield Plant, United Kingdom                                    | 1,785,960 | Global Generics and PSAI |
| 27            | API Middleburgh Plant, New York, United States                        | 292,000   | Global Generics          |
| 28            | Technology Development Centre, Cambridge, United Kingdom              | 32,966    | Global Generics and PSAI |
| 29            | Technology Development Centre, OctoPlus N.V., Leiden, the Netherlands | 56,500    | Global Generics and PSAI |
| 30            | Formulations Beverley Plant, East Yorkshire, United Kingdom           | 81,000    | Global Generics          |
| 31            | Formulations Shreveport Plant, Louisiana, United States               | 2,349,251 | Global Generics          |
| 32            | Formulations Bristol Plant, Tennessee, United States                  | 1,742,400 | Global Generics          |
| 33            | Aurigene Discovery Technologies, Malaysia                             | 5,672     | Others                   |

During the three months ended March 31, 2018, we disposed of our Formulations Yanam plant in Puducherry, India.

We generally own our facilities. However, some of our sites (primarily office space) are leased. All properties identified above, including leased properties, are either used for manufacturing and packaging of pharmaceutical products or for research and development activities. In addition to the above, we have sales, marketing and administrative offices, some of which are owned and some others are leased properties. We believe that our facilities are optimally utilized.



## **Global Generics**

During the year ended March 31, 2013, we expanded our biosimilars facility in Hyderabad, Telangana, India to meet growing demand in emerging markets.

During the year ended March 31, 2014, we set up a new manufacturing facility, Formulations Visakhapatnam Plant 2 (SEZ), Andhra Pradesh, India for the manufacture of parenteral (injectable form) products. This facility helps us meet the demand for such products in some of our key markets, including the United States.

During the year ended March 31, 2015, we obtained approvals from the U.S. FDA for products to be manufactured from a recently commissioned oral solid dosage form facility, Formulations Srikakulam Plant 1 (SEZ), Andhra Pradesh, India. This plant, which began operations during the year ended March 31, 2016, manufactures new molecules and certain high volume products of our Global Generics segment. Further, during the year March 31, 2016, we began manufacturing products from this plant.

## **Pharmaceutical Services and Active Ingredients**

During the year ended March 31, 2013, we set up a new manufacturing facility in a Special Economic Zone located in Devunipalavalasa, Srikakulam, Andhra Pradesh, India. We have filed some of our new DMFs from this location. This plant is 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. This location also houses our Global Generics segment's recently commissioned oral solid dosage form facility. The formal governmental approval for designating the property as a Special Economic Zone has been obtained.

## **Material plans to construct, expand and improve facilities**

As of March 31, 2018, we had capital work-in-progress of Rs.7,928 million and capital commitments of Rs.3,788 million for expansion of our manufacturing and research facilities, primarily relating to facilities located in India, the United States and Mexico. Our current capital work-in-progress and capital commitments primarily include projects towards capacity enhancement of our biologics facility in Hyderabad, strengthening packaging capability of our formulations manufacturing facilities at Visakhapatnam, building infrastructure for implementing the serialization regulation in our facilities at Hyderabad and Visakhapatnam and a corporate learning and research centre in Visakhapatnam. We currently intend to finance our additional expansion plans entirely through our operating cash

flows and through cash and other investments. A majority of these projects are expected to be completed during the fiscal years ending March 31, 2019 and March 31, 2020.

### **Environmental laws and regulations**

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.

## ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

### Overview

We are an integrated global pharmaceutical company committed to providing affordable and innovative medicines. 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 marketing authorizations for our products.

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

Our reportable operating segments are as follows:

- Global Generics;
- Pharmaceutical Services and Active Ingredients; and
- Proprietary Products.

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

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

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

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

The measurement of each segment's revenues, 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 defined as those that in our view are the most important to the portrayal of our financial condition and results and that require the most exercise of management's judgment. We consider the policies discussed under the following paragraphs to be critical for an understanding of our financial statements. The basis for preparation of our financial statements, 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 certain estimates and assumptions that require difficult, subjective and complex judgments. These judgments 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.

Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. In particular, 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:



- Evaluation of joint arrangements;
- Assessment of functional currency;
- Financial instruments;
- Business combinations;
- Useful lives of property, plant and equipment and intangible assets;
- Valuation of inventories;
- Measurement of recoverable amounts of cash-generating units;
- Assets and obligations relating to employee benefits;
- Provisions and other accruals;
- Sales returns, rebates and chargeback provisions;
- Evaluation of recoverability of deferred tax assets; 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 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 sales of generic products in India is recognized upon delivery of products to distributors by our clearing and forwarding agents. 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. Revenue from sales of API and intermediates in India is recognized on delivery of products to customers (generally formulation manufacturers) from

our factories. Revenue from export sales and other sales outside of India 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.

*Profit share revenues*

From time to time, we enter into marketing arrangements with certain business partners for the sale of our products in certain markets. Under such arrangements, we sell our products to the business partners at a non-refundable base purchase price agreed upon in the arrangement, and we are also entitled to a profit share which is over and above the base purchase price. The profit share is typically dependent on the business partner's ultimate net sale proceeds or net profits, subject to any reductions or adjustments that are required by the terms of the arrangement. Such arrangements typically require the business partner to provide confirmation of units sold and net sales or net profit computations for the products covered under the arrangement.

Revenue in an amount equal to the base purchase price is recognized in these transactions upon delivery of products to the business partners. An additional amount representing the profit share component is recognized as revenue in the period which corresponds to the ultimate sales of the products made by business partners only when the collectability of the profit share becomes probable and a reliable measurement of the profit share is available. Otherwise, recognition is deferred to a subsequent period pending satisfaction of such collectability and measurability requirements. In measuring the amount of profit share revenue to be recognized for each period, we use all available information and evidence, including any confirmations from the business partner of the profit share amount owed to us, to the extent made available before the date our Board of Directors authorizes the issuance of our financial statements for the applicable period.

*Milestone payments and out licensing arrangements*

Revenues include amounts derived from product out-licensing agreements. These arrangements typically consist of an initial up-front payment upon inception of the license and subsequent payments dependent on achieving certain milestones in accordance with the terms prescribed in the agreement. Non-refundable up-front license fees received in connection with product out-licensing agreements are deferred and recognized over the period in which we have continuing performance obligations. Milestone payments which are contingent on achieving certain clinical milestones are recognized as revenues either on achievement of such milestones, if the milestones are considered substantive, or over the period we have continuing performance obligations, if the milestones are not considered substantive. If milestone payments are creditable against future royalty payments, the milestones are deferred and released over the period in which the royalties are anticipated to be paid.

*Provision for chargeback, rebates, sales returns and discounts*

In our U.S. Generics business, our gross revenues are significantly reduced by chargebacks, rebates, sales returns, discounts, shelf stock adjustments, Medicaid payments and similar “gross-to-net” adjustments. Each of such adjustments are discussed in detail below.

*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 book closure process, a chargeback validation is performed in which we track and reconcile the volume of inventory sold 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 95% of the total value of chargebacks outstanding at every year end reporting date) 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.

*Shelf Stock Adjustments:* Shelf stock adjustments are credits issued to customers to reflect decreases in the selling price of products sold by us, and are accrued when the prices of certain products decline as a result of increased competition upon the expiration of limited competition or exclusivity periods. These credits are customary in the pharmaceutical industry, and are intended to reduce the customer inventory cost to better reflect the current market prices. The determination to grant a shelf stock adjustment to a customer is based on the terms of the applicable contract, which may or may not specifically limit the age of the stock on which a credit would be offered.

*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. Our estimate of sales returns is determined primarily by our historical experience. 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 of 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.

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.

*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 90 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 68% of such “gross-to-net” adjustments for our U.S. Generics business for the year ended March 31, 2018. 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:

*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.

*Unit pricing rate*— At any point in time, inventory volumes on which we carry our chargeback accrual represents approximately 1 month of sales volumes. Therefore, the sensitivity of price changes on our chargeback accrual only relates to such volumes. Assuming that the chargebacks were processed within such period, we analyzed the impact of changes of prices for the periods beginning April 1, 2017, 2016 and 2015, respectively, and ended March 31, 2018, 2017 and 2016, respectively, on our estimated inventory levels computed based on the methodology described above (see “Chargebacks” above). We note 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 below for our fiscal years ended March 31, 2016, 2017 and 2018:

| Particulars   | Chargebacks                     | Rebates | Medicaid | Sales Returns |
|---|---------------------------------|---------|----------|---------------|
|   | (All values in U.S.\$ millions) |         |          |               |
| Beginning Balance: April 1, 2015                                    | 194                             | 222     | 17       | 40            |
| Current provisions relating to sales during the year <sup>(1)</sup> | 2,208                           | 767     | 23       | 32            |
| Provisions and adjustments relating to sales in prior years         | *                               | -       | -        | -             |
| Credits and payments**  | (2,193 )                        | (732 )  | (26 )    | (27 )         |
| Ending Balance: March 31, 2016                                      | 209                             | 257     | 14       | 45            |
| Beginning Balance: April 1, 2016                                    | 209                             | 257     | 14       | 45            |
| Current provisions relating to sales during the year <sup>(2)</sup> | 1,963                           | 700     | 22       | 28            |
| Provisions and adjustments relating to sales in prior years         | *                               | -       | -        | -             |
| Credits and payments**  | (1,981 )                        | (771 )  | (23 )    | (37 )         |
| Ending Balance: March 31, 2017                                      | 191                             | 186     | 13       | 36            |
| Beginning Balance: April 1, 2017                                    | 191                             | 186     | 13       | 36            |
| Current provisions relating to sales during the year <sup>(3)</sup> | 1,750                           | 630     | 18       | 22            |
| Provisions and adjustments relating to sales in prior years         | *                               | -       | -        | -             |
| Credits and payments**  | (1,771 )                        | (655 )  | (19 )    | (30 )         |
| Ending Balance: March 31, 2018                                      | 170                             | 161     | 12       | 28            |

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 approximately 1.1 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.

Chargebacks and rebates provisions for the year ended March 31, 2016 and payments for the year ended March 31, (1)2016 were each higher as compared to the year ended March 31, 2015, primarily as a result of product mix changes and the addition of new products.

Chargebacks and rebates provisions for the year ended March 31, 2017 and payments for the year ended March 31, (2)2017 were each lower as compared to the year ended March 31, 2016, primarily as a result of lower sales, product mix changes and relatively low value of new products.

Chargebacks and rebates provisions for the year ended March 31, 2018 and payments for the year ended March 31, 2018 were each lower as compared to the year ended March 31, 2017, primarily as a result of lower<sup>(3)</sup> pricing rates per unit for chargebacks, due to a reduction in the invoice price to wholesalers for certain of our products, and due to certain product mix changes.

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 are 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.

Our overall provision for sales returns as at March 31, 2018 was Rs.3,210 million, as compared to a provision of Rs.3,784 million as at March 31, 2017. This decrease in our provision was primarily attributable to a lower allowance for returns provision created for the year ended March 31, 2018 due to lower sales recorded for the year ended March 31, 2018 based on our historical experience and recent trends in actual sales returns, in the markets in which we operate. For further information regarding our sales return provisions, refer to Note 20 to our consolidated financial statements.

### *Services*

Revenue from services rendered, which primarily relate to contract research, is recognized in the consolidated income statement 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.

*License fees*

In the ordinary course of business, we periodically enter into certain dossier sales, licensing and supply arrangements with various parties. Income from licensing arrangements is generally recognized over the term of the contract. Some of these arrangements include certain performance obligations by us. Revenue from such arrangements is recognized in the period in which we complete all of our performance obligations.

***Financial instruments***

Non-derivative financial instruments

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

Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs, except for those instruments that are designated as being fair value through profit and loss upon initial recognition. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

*Cash and cash equivalents*

Cash and cash equivalents consist of cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value. For this purpose, "short-term" means investments having original maturities of three months or less from the date of investment. 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*

Held-to-maturity investments consist of investments in bonds with fixed or determinable payments and fixed maturity that we have the positive intention and the ability to hold to maturity. Such investments are initially measured at fair value with subsequent measurements made at amortized cost using the effective interest rate method.

*Other investments*

Other investments consist of term deposits with original maturities of more than three months, mutual funds and equity securities.

Investments in mutual funds and equity 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 in other comprehensive income/(loss) and presented within equity under “fair value reserve”. When an investment is derecognized, the cumulative gain or loss in equity is transferred to the consolidated income statement.

*Trade payables*

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is expected within one year or within the normal operating cycle of the business. After initial recognition, trade payables are recognized at amortized cost using effective interest rate method.

*Trade receivables*

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. Trade receivables are classified as current assets if the collection is expected within one year or within the normal operating cycle of the business. After initial recognition, trade receivables are recognized at amortized cost using effective interest rate method.

*Debt instruments and other financial liabilities*

We initially recognize debt instruments issued on the date that they originate. All other financial liabilities are recognized initially on the trade date, which is the date we become a party to the contractual provisions of the instrument. These are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to

initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

*Other non-derivative financial instruments*

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

*De-recognition of financial assets and liabilities*

We derecognize a financial asset when the contractual right to the cash flows from that asset expires, or we transfer the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. If we retain substantially all the risks and rewards of ownership of a transferred financial asset, we continue to recognize the financial asset and also recognize a collateralized borrowing, at amortized cost, for the proceeds received.

We derecognize a financial liability when its contractual obligations are discharged, cancelled or expired. The difference between the carrying amount of the derecognized financial liability and the consideration paid is recognized as profit or loss.

*Offsetting financial assets and liabilities*

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, we have a legal right and ability to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Derivative financial instruments

We are exposed to exchange rate risks which arise from our foreign exchange revenues, expenses and borrowings primarily in U.S. dollars, U.K. pounds sterling, Russian roubles, Brazilian reals, South African rands (“ZAR”), Romanian new leus and Euros, and foreign currency debt in U.S. dollars, Russian roubles, Ukrainian hryvnia and Euros.

We use derivative financial instruments, including foreign exchange forward contracts, option contracts and currency swap contracts, to mitigate our risk of changes in foreign currency exchange rates and interest rates. We also use non-derivative financial instruments as part of our foreign currency exposure risk mitigation strategy.

*Hedges of highly probable forecast transactions*



We classify our derivative financial instruments that hedge foreign currency risk associated with highly probable forecast transactions as cash flow hedges and measure them at fair value. The effective portion of such cash flow hedges is recorded in our hedging reserve, as a component of equity, and reclassified to the consolidated income statement as revenue in the period corresponding to the occurrence of the forecast transactions. The ineffective portion of such cash flow hedges is recorded in the consolidated income statement as finance costs immediately.

We also designate certain non-derivative financial liabilities, such as foreign currency borrowings from banks, as hedging instruments for hedge of foreign currency risk associated with highly probable forecast transactions. Accordingly, we apply cash flow hedge accounting to such relationships. Re-measurement gain/loss on such non-derivative financial liabilities is recorded in our hedging reserve, as a component of equity, and reclassified to the consolidated income statement as revenue in the period corresponding to the occurrence of the forecast transactions.

Upon initial designation of a hedging instrument, we formally document the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. We make an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be “highly effective” in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80%-125% relative to the gain or loss on the hedged items. For cash flow hedges to be “highly effective”, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect 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. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income/(loss) is recognized immediately in the consolidated income statement.

#### *Hedges of recognized assets and liabilities*

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

*Hedges of changes in the interest rates*

Consistent with our risk management policy, we use interest rate swaps to mitigate the risk of changes in interest rates. We do not use such instruments for trading or speculative purposes.

*Foreign currency*

*Functional currency*

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

In respect of certain 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). The operations of these subsidiaries are largely restricted to importing of finished goods from our parent company in India, sales of these products in the foreign country and making of import payments to our parent company. The cash flows realized from sales of goods are available for making import payments to our parent company and cash is paid 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 generally determined to be the local currency of those countries/regions, unless use of a different currency is considered appropriate.

*Foreign currency transactions and foreign operations*

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 translated into the functional currency at the exchange rate at that date. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognized in profit or loss in the period in which they arise.

However, foreign currency differences arising from the translation of the following items are recognized in other comprehensive income (“OCI”):

- available-for-sale financial assets (except on impairment, in which case foreign currency differences that have been recognized in OCI are reclassified to the consolidated income statement);

- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and

- qualifying cash flow hedges, to the extent that the hedges are effective.

When several exchange rates are available, the rate used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date.

Foreign exchange gains and losses arising from a monetary item receivable from 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) and presented within equity as a part of foreign currency translation reserve (“FCTR”).

In the case of foreign operations whose functional currency is different from Indian rupees (our parent company’s functional currency), the assets and liabilities of such foreign operations, including goodwill and fair value adjustments arising upon acquisition, are translated to the reporting currency at exchange rates at the reporting date. The income and expenses of such foreign operations are translated to the reporting currency at the monthly average exchange rates prevailing during the year. Resulting foreign currency differences are recognized in other comprehensive income/(loss) and presented within equity as part of FCTR. When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to the consolidated income statement.

### ***Business combinations***

We use the acquisition method of accounting to account for any business combination that occurred on or after April 1, 2009. The acquisition date is the date on which control is transferred to the acquirer. Judgment is applied in determining the acquisition date and determining whether control is transferred from one party to another. Control exists when we are exposed to, or have rights to variable returns from our involvement with the entity and have the ability to affect those returns through power over the entity. In assessing control, potential voting rights are considered only if the rights are substantive. We measure goodwill as of the applicable acquisition date at the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, less the net

recognized amount of the identifiable assets acquired and liabilities assumed. When the fair value of the net identifiable assets acquired and liabilities assumed exceeds the consideration transferred, a bargain purchase gain is recognized immediately in the consolidated income statement. 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. Consideration transferred does not include amounts related to the settlement of pre-existing relationships. Any goodwill that arises on account of such business combination is tested annually for impairment.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and the settlement is accounted for within equity. Otherwise, other contingent consideration is re-measured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recorded in the consolidated income statement.

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.

On an acquisition-by-acquisition basis, we recognize any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. 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.

### ***Property, plant and equipment***

#### *Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and other costs directly attributable to bringing the asset to a working condition for its intended use. Borrowing costs that are directly attributable to the construction or production of a qualifying asset are capitalized as part of the cost of that asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses upon disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within "other (income)/expense, net" in the consolidated income statement.

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to us and its cost can be measured reliably. The costs of repairs and maintenance are recognized in the consolidated income statement as incurred.

Items of property, plant and equipment acquired through exchange of non-monetary assets are measured at fair value, unless the exchange transaction lacks commercial substance or the fair value of either the asset received or asset given up is not reliably measurable, in which case the asset exchanged is recorded at the carrying amount of the asset given up.

### *Depreciation*

Depreciation is recognized in the consolidated income statement on a straight line basis over the estimated useful lives of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. The depreciation expense is included in the costs of the functions using the asset. Land is not depreciated.

Leasehold improvements are depreciated over period of the lease agreement or the useful life, whichever is shorter.

Depreciation methods, useful lives and residual values are reviewed at each reporting date. The estimated useful lives are as follows:

|  |               |
|--|---------------|
| Buildings                                |               |
| - Factory and administrative buildings   | 20 - 50 years |
| - Ancillary structures                   | 3 - 15 years  |
| Plant and equipment                      | 3 - 15 years  |
| Furniture, fixtures and office equipment | 4 - 10 years  |
| Vehicles                                 | 4 - 5 years   |
| Computer equipment                       | 3 - 5 years   |

Software for internal use, which is primarily acquired from third-party vendors and which is an integral part of a tangible asset, including consultancy charges for implementing the software, is capitalized as part of the related tangible asset. Subsequent costs associated with maintaining such software are recognized as expense as incurred. The capitalized costs are amortized over the estimated useful life of the software or the remaining useful life of the tangible fixed asset, whichever is lower.

Advances paid towards the acquisition of property, plant and equipment outstanding at each reporting date and the cost of property, plant and equipment not ready to use before such date are disclosed under capital work-in-progress. Assets not ready for use are not depreciated.

### ***Goodwill and other intangible assets***

#### ***Recognition and measurement***

Goodwill represents the excess of consideration transferred, together with the amount of non-controlling interest in the acquiree, over the fair value of the Company's share of identifiable net assets acquired.

#### ***Goodwill***

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.

#### ***Other intangible assets***

##### ***Research and development***

Other intangible assets that are acquired and that have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

Expenditures on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding are recognized in the consolidated income statement 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
- we intend to, and have sufficient resources to, complete development and to use or sell the asset.

The expenditures to be 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 the consolidated income statement as incurred.

***Separate acquisition of intangible assets***

Payments to third parties that generally take the form of up-front payments and milestones for in-licensed products, compounds and intellectual property are capitalized. Our criteria for capitalization of such assets is consistent with the guidance given in paragraph 25 of International Accounting Standard 38 (“IAS 38”) (i.e., the receipt of economic benefits embodied in each intangible asset separately purchased or licensed in the transaction is considered to be probable).

***In-Process Research and Development assets (“IPR&D”)***

Acquired research and development intangible assets that are under development are recognized as In-Process Research and Development assets (“IPR&D”). IPR&D assets are not amortized, but evaluated for potential impairment on an annual basis or when there are indications that the carrying value may not be recoverable. Any impairment charge on such IPR&D assets is recorded in the consolidated income statement under "Research and Development expenses".

***Subsequent expenditure***

***Other intangible assets***

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures, including expenditures on internally generated goodwill and brands, is recognized in the consolidated income statement as incurred.

Subsequent expenditure on an IPR&D project acquired separately or in a business combination and recognized as an intangible asset is:

***IPR&D assets***

- recognized as an expense when incurred, if it is research expenditure;
- recognized as an expense when incurred, if it is development expenditure that does not satisfy the criteria for recognition as an intangible asset in paragraph 57 of IAS 38; and
- added to the carrying amount of the acquired in-process research or development project, if it is development expenditure that satisfies the recognition criteria in paragraph 57 of IAS 38.



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. However, where the recognition criteria are met, intangible assets are capitalized and amortized on a straight-line basis over their useful economic lives from product launch.

As of March 31, 2018, no internal drug development expenditure amounts have met the recognition criteria. The expenditures to be 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 the consolidated income statements as incurred.

A substantial portion of our current research and development activities relates to the development of bio-equivalent products, which do not require full scale 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, 2018 were Rs.18,265 million, which was approximately 13% 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, 2018, 2017 and 2016 represented approximately 64%, 61%, and 65%, respectively, of our total research and development expenditures.

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 any 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.

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 reporting date. All other intangible assets are tested for impairment when there are indications that the carrying value may not be recoverable. All impairment losses are recognized immediately in the consolidated income statement.

#### *Amortization*

Amortization is recognized in the consolidated income statement on a straight-line basis over the estimated useful lives of intangible assets or on any other basis that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity. Intangible assets that are not available for use are amortized from the date they are available for use.

In determining the useful life we consider the following factors:

-technical, technological, commercial or other types of obsolescence;

-expected actions by competitors or potential competitors;

-typical product life cycles for the asset and public information on estimates of useful lives of similar assets that are used in a similar way; and

-the period of control over the asset and legal or similar limits on the use of the asset.

The estimated useful lives are as follows:

|                                |              |
|--------------------------------|--------------|
| Trademarks                     | 3 - 12 years |
| Product related intangibles    | 5 - 15 years |
| Customer-related intangibles   | 1 - 11 years |
| Technology related intangibles | 3 - 13 years |
| Other intangibles              | 3 - 15 years |

## *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.

Significant financial assets are tested for impairment on an individual basis.

All impairment losses are recognized in the consolidated income statement. When the fair value of available-for-sale financial assets declines below acquisition cost and there is objective evidence that the asset is impaired, the cumulative loss that has been recognized in other comprehensive income is transferred to the consolidated income statement. An impairment loss may be reversed in subsequent periods if the indicators for the impairment no longer exist. Such reversals are recognized in other comprehensive income.

### *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 (as defined below) 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 or the cash-generating unit. 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”).

In the circumstances where the asset specific discount rate is not directly available from the market, we use surrogates to estimate the discount rate. For this purpose, we take into consideration the following rates:

- the weighted average cost of capital determined using techniques such as the Capital Asset Pricing Model;
- our incremental borrowing rate; and
- other market borrowing rates.

However, these rates are adjusted:

- to reflect the way that the market would assess the specific risks associated with the asset’s estimated cash flows; and
- to exclude the risks that are not relevant to the asset’s estimated cash flows or for which the estimated cash flows have been adjusted.

Consideration is given to risks such as country risk, currency risk and price risk.

The goodwill acquired in a business combination is, for the purpose of impairment testing, 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 the consolidated income statement. 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 for an asset other than goodwill is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss for an asset other than goodwill 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:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit;

- temporary 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; and

- 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.

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.

Any deferred tax asset or liability arising from deductible or taxable temporary differences in respect of unrealized inter-company profit or loss on inventories held by us in different tax jurisdictions is recognized using the tax rate of the jurisdiction in which such inventories are held. Withholding tax arising out of payment of dividends to shareholders under the Indian Income tax regulations is not considered as tax expense for us and all such taxes are recognized in the statement of changes in equity as part of the associated dividend payment.

### *Inventories*

Inventories consist of raw materials, stores and spares, work in progress and finished goods, and are measured at the lower of cost and net realizable value. The cost of all categories of inventories is based on the weighted average method. Cost includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of finished goods and work in progress, cost includes an appropriate share of overheads based on normal operating capacity. Stores and spares consists of packing materials, engineering spares (such as machinery spare parts) and consumables (such as lubricants, cotton waste and oils) that are used in operating machines or consumed as indirect materials in the manufacturing process.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The factors that we consider in determining the allowance for slow moving, obsolete and other non-saleable inventory includes estimated shelf life, planned product discontinuances, price changes, aging of inventory and introduction of competitive new products, to the extent each of these factors impact our business and markets. We consider all of these factors and adjust the inventory provision to reflect our actual experience on a periodic basis.

### *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 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. 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. 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.





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 such circumstances, 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.

### *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.

### *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 its 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.

*Contingent liabilities and contingent assets*

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

Contingent assets are not recognized in the financial statements. However, contingent assets are assessed continually and, if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognized in the period in which the change occurs.

**Recent Accounting Pronouncements**

Refer to Note 3(s) to our consolidated financial statements.

## 5.A. Operating results

## Income Statement Data

|   | For the year ended March 31,          |                  |                   |                   |
|---|---------------------------------------|------------------|-------------------|-------------------|
|   | 2018                                  | 2018             | 2017              | 2016              |
|   | (Rs. in millions, U.S.\$ in millions) |                  |                   |                   |
|   | Convenience translation into U.S.\$   |                  |                   |                   |
| Revenues  | U.S.\$2,181                           | Rs. 142,028      | Rs. 140,809       | Rs. 154,708       |
| Cost of revenues  | 1,009                                 | 65,724           | 62,453            | 62,427            |
| Gross profit  | 1,172                                 | 76,304           | 78,356            | 92,281            |
| Selling, general and administrative expenses              | 720                                   | 46,910           | 46,372            | 45,702            |
| Research and development expenses                         | 281                                   | 18,265           | 19,551            | 17,834            |
| Other (income)/expense, net                               | (12 )                                 | (788 )           | (1,065 )          | (874 )            |
| Results from operating activities                         | 183                                   | 11,917           | 13,498            | 29,619            |
| Finance (expense)/income, net                             | 32                                    | 2,080            | 806               | (2,708 )          |
| Share of profit of equity accounted investees, net of tax | 5                                     | 344              | 349               | 229               |
| Profit before tax   | 220                                   | 14,341           | 14,653            | 27,140            |
| Tax expense   | 70                                    | 4,535            | 2,614             | 7,127             |
| Profit for the year                                       | <b>U.S.\$ 151</b>                     | <b>Rs. 9,806</b> | <b>Rs. 12,039</b> | <b>Rs. 20,013</b> |

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          |         |         | Percentage Increase/(Decrease) |           |
|---|------------------------------|---------|---------|--------------------------------|-----------|
|   | For the year ended March 31, |         |         | 2017 to                        | 2016 to   |
|   | 2018                         | 2017    | 2016    | 2018                           | 2017      |
| Revenues                                      | 100.0 %                      | 100.0 % | 100.0 % | 0.9 %                          | (9.0 %)   |
| Gross profit                                  | 53.7 %                       | 55.6 %  | 59.6 %  | (2.6 %)                        | (15.1 %)  |
| Selling, general, and administrative expenses | 33.0 %                       | 32.9 %  | 29.5 %  | 1.2 %                          | 1.5 %     |
| Research and development expenses             | 12.9 %                       | 13.9 %  | 11.5 %  | (6.6 %)                        | 9.6 %     |
| Other (income)/expense, net                   | (0.6 %)                      | (0.8 %) | (0.6 %) | (26.0 %)                       | 21.8 %    |
| Results from operating activities             | 8.4 %                        | 9.6 %   | 19.1 %  | (11.7 %)                       | (54.4 %)  |
| Finance (expense)/income, net                 | 1.5 %                        | 0.6 %   | (1.8 %) | 158.1 %                        | (129.8 %) |

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|   |      |   |      |   |      |   |       |    |       |    |
|---|------|---|------|---|------|---|-------|----|-------|----|
| Share of profit of equity accounted investees, net of tax | 0.2  | % | 0.2  | % | 0.1  | % | (1.4  | %) | 52.5  | %  |
| Profit before taxes                                       | 10.1 | % | 10.4 | % | 17.5 | % | (2.1  | %) | (46.0 | %) |
| Tax expense   | 3.2  | % | 1.9  | % | 4.6  | % | 73.5  | %  | (63.3 | %) |
| Profit for the year                                       | 6.9  | % | 8.5  | % | 12.9 | % | (18.5 | %) | (39.8 | %) |

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

|                      |                    | For the year ended March 31, |   |                    |     | 2016     |                    |          |   |
|----------------------|--------------------|------------------------------|---|--------------------|-----|----------|--------------------|----------|---|
|                      |                    | 2018                         |   | 2017               |     |          |                    |          |   |
|                      |                    | (Rs. in millions)            |   |                    |     |          |                    |          |   |
|                      |                    | % of                         |   | % of               |     | % of     |                    | % of     |   |
|                      |                    | Revenues                     |   | Revenues           |     | Revenues |                    | Revenues |   |
|                      |                    | Segment                      |   | Segment            |     | Segment  |                    | Segment  |   |
|                      |                    | revenue                      |   | revenue            |     | revenue  |                    | revenue  |   |
| Global Generics      | Rs. 114,014        | 80                           | % | Rs. 115,409        | 82  | %        | Rs. 128,062        | 83       | % |
| PSAI                 | 21,992             | 16                           | % | 21,277             | 15  | %        | 22,379             | 14       | % |
| Proprietary Products | 4,245              | 3                            | % | 2,363              | 2   | %        | 2,659              | 2        | % |
| Others               | 1,777              | 1                            | % | 1,760              | 1   | %        | 1,608              | 1        | % |
| Total                | <b>Rs. 142,028</b> | 100                          | % | <b>Rs. 140,809</b> | 100 | %        | <b>Rs. 154,708</b> | 100      | % |

**Fiscal Year Ended March 31, 2018 compared to Fiscal Year Ended March 31, 2017****Revenues**

Our overall consolidated revenues were Rs.142,028 million for the year ended March 31, 2018, an increase of 1% as compared to Rs.140,809 million for the year ended March 31, 2017. This revenue growth for the year ended March 31, 2018 was primarily due to higher income from out-licensing products in our proprietary products segment, partially offset by decreased sales (largely driven by reduced prices) in our Global Generics segment's North America (the United States and Canada) business.

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

|  | For the year ended March 31,<br>2018 |                       | 2017     |                       | 2016     |                       |                   |                       |   |
|--|--------------------------------------|-----------------------|----------|-----------------------|----------|-----------------------|-------------------|-----------------------|---|
|  | % of                                 |                       | % of     |                       | % of     |                       | % of              |                       |   |
|  | Revenues                             | Total<br>Revenue<br>* | Revenues | Total<br>Revenue<br>* | Revenues | Total<br>Revenue<br>* | Revenues          | Total<br>Revenue<br>* |   |
|  | (Rs. in millions)                    |                       |          |                       |          |                       |                   |                       |   |
| Global Generics  | <b>Rs.114,014</b>                    | 80                    | %        | <b>Rs.115,409</b>     | 82       | %                     | <b>Rs.128,062</b> | 83                    | % |
| North America (the United States and<br>Canada)          | 59,822                               | 53                    | %        | 63,601                | 55       | %                     | 75,445            | 59                    | % |
| Europe   | 8,217                                | 7                     | %        | 7,606                 | 7        | %                     | 7,732             | 6                     | % |
| India  | 23,321                               | 20                    | %        | 23,131                | 20       | %                     | 21,293            | 17                    | % |
| Russia and other countries of the<br>former Soviet Union | 16,528                               | 15                    | %        | 15,238                | 13       | %                     | 14,176            | 11                    | % |
| Others   | 6,126                                | 5                     | %        | 5,833                 | 5        | %                     | 9,416             | 7                     | % |
| PSAI   | 21,992                               | 16                    | %        | 21,277                | 15       | %                     | 22,379            | 14                    | % |
| Proprietary Products and Others                          | 6,022                                | 4                     | %        | 4,123                 | 3        | %                     | 4,267             | 3                     | % |
| Total  | 142,028                              | 100                   | %        | 140,809               | 100      | %                     | 154,708           | 100                   | % |

\* This represents the segment's revenue from sales in the respective geography as a percentage of the total segment's revenue.

For the year ended March 31, 2018, the U.S. dollar depreciated by approximately 4%, and the Euro and the Russian rouble appreciated 3% and 5%, respectively, against the Indian rupee as compared to the year ended March 31, 2017. These changes in exchange rates decreased our reported revenues because of the decrease in Indian rupee realization from sales in U.S. dollars.

## Segment analysis

### *Global Generics*

Revenues from our Global Generics segment were Rs.114,014 million for the year ended March 31, 2018, a decrease of 1% as compared to Rs.115,409 million for the year ended March 31, 2017. The revenue decline was largely attributable to this segment's operations in the United States.

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

a decrease of approximately 13% resulting from the net impact of changes in sales prices of the products in this segment;

the foregoing was partially offset by an increase of approximately 5% resulting from a net increase in the sales volumes of existing products in this segment; and

in addition, the foregoing was also partially offset by an increase of approximately 7% resulting from new products launched during the year ended March 31, 2018.

*North America (the United States and Canada):* Our Global Generics segment's revenues from North America (the United States and Canada) were Rs.59,822 million for the year ended March 31, 2018, a decrease of 6% as compared to the year ended March 31, 2017. In U.S. dollar absolute currency terms (i.e., U.S. dollars without taking into account the effect of currency exchange rates), such revenues decreased by 4% for the year ended March 31, 2018 as compared to the year ended March 31, 2017.

This revenue decrease was largely attributable to the following:

reduced sales (primarily due to significant price erosion) as a result of increased competition for our key products, such as valgancyclovir, decitabine and azacitidine;

significant decline in our sale of products to McNeil Consumer Healthcare following the conclusion of some of our existing supply arrangements with them; and

the foregoing was partially offset by revenues from new products launched during the year ended March 31, 2018, such as ezetimibe and simvastatin, doxorubicin hydrochloride liposome injection, sevelamer carbonate and palonosetron hydrochloride injection.

During the year ended March 31, 2018, we made 19 new ANDA filings with the U.S. FDA. As of March 31, 2018 our cumulative filings were 284, which includes 4 NDA filings under section 505(b)(2) and 280 ANDA filings. These 280 ANDA filings include 8 ANDAs that we acquired from Teva and an affiliate of Allergan plc. As of March 31, 2018, we had 110 filings pending approval with the U.S. FDA (107 ANDAs and 3 NDAs under 505(b)(2) route including 14 tentative approvals). Of the 107 ANDAs which are pending approval, 63 are Paragraph IV filings, and we believe that we are the first to file with respect to 30 of these filings. Further, these 107 ANDAs which are pending for approval include 6 ANDAs acquired from Teva and Allergan plc's affiliate, of which 5 are Paragraph IV filings.

*India:* Our Global Generics segment's revenues from India were Rs.23,321 million, for the year ended March 31, 2018, an increase of 1% as compared to the year ended March 31, 2017. This growth was largely attributable to revenues from new brands launched in India during the year ended March 31, 2018, and an increase in sales volumes of our existing products, which was partially offset by the decrease in sales prices of our existing products.

Prior to the transition to India's new Goods and Service Tax ("GST") regime, which became effective on July 1, 2017, the excise duty amount was recorded in revenues with a corresponding amount recorded in the cost of revenues. For periods effective on or after July 1, 2017, excise duty has been subsumed in the GST, and is not recorded in revenues or cost of revenues. Consequently, the revenues reported for periods subsequent to the GST transition no longer reflect excise duty, and the reported growth would therefore be lower. According to IMS Health in its Moving Annual Total report for the year ended March 31, 2018, our secondary sales in India grew by 1.8% during such period, as compared to the India pharmaceutical market's growth of 6.3% during such period. During the year ended March 31, 2018, we launched 20 new brands in India.

*Emerging Markets:* Our Global Generics segment's revenues from "Emerging Markets" (which is comprised of Russia, other countries of the former Soviet Union, Romania and certain other countries from our "Rest of the World" markets,

primarily South Africa and Australia) were Rs.22,654 million for the year ended March 31, 2018, an increase of 8% as compared to the year ended March 31, 2017. This revenue increase was largely attributable to increased revenues from Russia and other countries, as described below.

*Russia:* Our Global Generics segment's revenues from Russia were Rs.12,606 million for the year ended March 31, 2018, an increase of 9% as compared to the year ended March 31, 2017. In Russian rouble absolute currency terms (i.e., Russian roubles without taking into account the effect of currency exchange rates), such revenues increased by 4% for the year ended March 31, 2018 as compared to the year ended March 31, 2017. This revenue increase was largely attributable to increased supplies of rituximab. Our over-the-counter ("OTC") division's revenues from Russia for the year ended March 31, 2018 were approximately 43% of our total revenues from Russia.

According to IMS Health, as per its report for the year ended March 31, 2018, our sales value (in Russian roubles) growth and volume growth from Russia for such period, as compared to the Russian pharmaceutical market sales value (in Russian roubles) growth and volume growth for such period, was as follows:

|                        | Year ended March 31, 2018 |         |                               |          |
|------------------------|---------------------------|---------|-------------------------------|----------|
|                        | Dr. Reddy's               |         | Russian pharmaceutical market |          |
|                        | Sales value               | Volume  | Sales value                   | Volume   |
| Prescription (Rx)      | 1.66 %                    | (2.02%) | 6.33 %                        | 1.03%    |
| Over-the-counter (OTC) | 5.04 %                    | (0.26%) | 0.76 %                        | (3.45% ) |
| Total (Rx + OTC)       | 3.00 %                    | (1.50%) | 3.35 %                        | (2.14% ) |



As per the above referenced IMS Health report, our market shares in Russia for the years ended March 31, 2018 and 2017 were as follows:

|                        | Year ended March 31, |        |             |        |
|------------------------|----------------------|--------|-------------|--------|
|                        | Volume based         |        | Value based |        |
|                        | 2018                 | 2017   | 2018        | 2017   |
| Prescription (Rx)      | 4.21 %               | 4.30 % | 1.94 %      | 2.00 % |
| Over-the-counter (OTC) | 0.51 %               | 0.71 % | 0.61 %      | 0.60 % |
| Total (Rx + OTC)       | 1.78 %               | 1.77 % | 1.54 %      | 1.54 % |

*Other countries of the former Soviet Union and Romania:* Our Global Generics segment's revenues from other countries of the former Soviet Union and Romania were Rs.3,922 million for the year ended March 31, 2018, an increase of 6% as compared to the year ended March 31, 2017. This increase was largely attributable to increased revenues from our existing products, as well as revenues from new products launched during the year ended March 31, 2018, primarily from nasavin tablets.

*"Rest of the World" Markets:* We refer to all markets of this segment, other than North America (the United States and Canada), Europe, Russia and other countries of the former Soviet Union, Romania and India, as our "Rest of the World" markets. Our Global Generics segment's revenues from our "Rest of the World" markets were Rs.6,126 million for the year ended March 31, 2018, an increase of 5% as compared to the year ended March 31, 2017. During the year ended March 31, 2018, we expanded our presence in Brazil and Colombia, where we have a portfolio of high quality and affordable medicines for cancer patients.

*Europe:* Our Global Generics segment's revenues from Europe are primarily derived from Germany, the United Kingdom and our out-licensing business across Europe, and were Rs.8,217 million for the year ended March 31, 2018, an increase of 8% as compared to the year ended March 31, 2017. This increase was primarily on account of higher sales in the United Kingdom and higher revenues from out-licensing products.

#### ***Pharmaceutical Services and Active Ingredients***

Our PSAI segment's revenues were Rs.21,992 million for the year ended March 31, 2018, an increase of 3% as compared to the year ended March 31, 2017. After taking into account the impact of exchange rate fluctuations of the Indian rupee against multiple currencies in the markets in which we operate, this increase in revenues was largely attributable to:

increased sales of active pharmaceutical ingredients for the year ended March 31, 2018, which increased our PSAI segment's revenues by approximately 6%; and

the foregoing was partially offset by decreased customer orders for our pharmaceutical development services, which decreased our PSAI segment's revenues by approximately 3%.

During the year ended March 31, 2018, we filed 73 Drug Master Files ("DMFs") worldwide. Cumulatively, our total worldwide DMFs as of March 31, 2017 were 882, including 207 DMFs in the United States.

### Gross Profit

Our total gross profit was Rs.76,304 million for the year ended March 31, 2018, representing 53.7% of our revenues for that period, as compared to Rs.78,356 million for the year ended March 31, 2017, representing 55.6% of our revenues for that period.

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

|                      | For the year ended March 31,<br>2018 |                             | 2017                |                             | 2016                |                             |                     |                             |
|----------------------|--------------------------------------|-----------------------------|---------------------|-----------------------------|---------------------|-----------------------------|---------------------|-----------------------------|
|                      | (Rs. in millions)                    |                             |                     |                             |                     |                             |                     |                             |
|                      | <b>Gross Profit</b>                  | <b>% of Segment Revenue</b> | <b>Gross Profit</b> | <b>% of Segment Revenue</b> | <b>Gross Profit</b> | <b>% of Segment Revenue</b> | <b>Gross Profit</b> | <b>% of Segment Revenue</b> |
| Global Generics      | Rs.67,190                            | 59 %                        | Rs.71,079           | 62 %                        | Rs.84,427           | 66 %                        |                     |                             |
| PSAI                 | 4,446                                | 20 %                        | 4,473               | 21 %                        | 4,931               | 22 %                        |                     |                             |
| Proprietary Products | 3,799                                | 89 %                        | 1,951               | 83 %                        | 2,217               | 83 %                        |                     |                             |
| Others               | 869                                  | 49 %                        | 853                 | 49 %                        | 706                 | 44 %                        |                     |                             |
| <b>Total</b>         | <b>76,304</b>                        | <b>54 %</b>                 | <b>Rs.78,356</b>    | <b>56 %</b>                 | <b>Rs.92,281</b>    | <b>60 %</b>                 |                     |                             |

After taking into account the impact of the exchange rate fluctuations of the Indian rupee against multiple currencies in the markets in which we operate, the gross profit from our Global Generics segment decreased to 59% for the year ended March 31, 2018, as compared to 62% for the year ended March 31, 2017. This decrease was largely attributable to significant price erosion in the United States and the impact of changes in our existing business mix (i.e., a decrease in the proportion of sales of higher gross margin products and an increase in the proportion of sales of lower gross margin products).

The gross profit from our PSAI segment decreased to 20% for the year ended March 31, 2018, from 21% for the year ended March 31, 2017. This decrease was primarily due to a decrease in sales of products with higher gross profit margins during the year ended March 31, 2018.

### **Selling, general and administrative expenses**

Our selling, general and administrative expenses were Rs.46,910 million for the year ended March 31, 2018, an increase of 1% as compared to Rs.46,372 million for the year ended March 31, 2017. After taking into account the impact of exchange rate fluctuations of the Indian rupee against multiple currencies in the markets in which we operate, this increase was largely attributable to the following:

increased personnel costs, primarily on account of annual raises and increases in the number of employees, all of which increased our selling, general and administrative expenses by approximately 3%; and

the foregoing was partially offset by decreased other costs, which decreased our selling, general and administrative expenses by approximately 2%.

As a proportion of our total revenues, our selling, general and administrative expenses was at 33.0% for the year ended March 31, 2018 as compared to 32.9% for the year ended March 31, 2017.

### **Research and development expenses**

Our research and development expenses were Rs.18,265 million for the year ended March 31, 2018, a decrease of 7% as compared to Rs.19,551 million for the year ended March 31, 2017. The decrease was primarily on account of deferrals in certain milestone related payments to subsequent quarters of the year ending March 31, 2019. Our focus continues on building our pipeline of complex generics, biosimilars and differentiated products.

As a proportion of our total revenues, our research and development expense was at 12.9% for the year ended March 31, 2018 as compared to 13.9% for the year ended March 31, 2017.

**Other (income)/expense, net**

Our net other income was Rs.788 million for the year ended March 31, 2018, a decrease of 26% as compared to net other income of Rs.1,065 million for the year ended March 31, 2017.

**Finance (expense)/income, net**

Our net finance income was Rs.2,080 million for the year ended March 31, 2018, as compared to net finance income of Rs.806 million for the year ended March 31, 2017. The increase in net finance income was attributable to:

profit on sale of investments of Rs.2,270 million for the year ended March 31, 2018, as compared to profit on sale of investments of Rs.957 million for the year ended March 31, 2017;

the foregoing was partially offset by an increase in net interest expense to Rs.248 million for the year ended March 31, 2018, as compared to net interest expense of Rs.77 million for the year ended March 31, 2017; and

the foregoing was further partially offset by a decrease in net foreign exchange gain to Rs.58 million for the year ended March 31, 2018, as compared to net foreign exchange loss of Rs.74 million for the year ended March 31, 2017.

**Profit before tax**

As a result of the above, our profit before taxes was Rs.14,341 million for the year ended March 31, 2018, a decrease of 2% as compared to Rs.14,653 million for the year ended March 31, 2017.

**Tax expense**

Our tax expense was Rs.4,535 million for the year ended March 31, 2018, as compared to Rs.2,614 million for the year ended March 31, 2017. Our consolidated weighted average tax rate was 31.6% for the year ended March 31, 2018, as compared to 17.8% for the year ended March 31, 2017.

The effective rate of tax for the year ended March 31, 2018 was higher primarily on account of implementation of the provisions of The Tax Cuts and Jobs Act of 2017 that was enacted into law in the United States on December 22, 2017. Due to this enactment, we re-measured our deferred tax assets and liabilities in our subsidiaries based in the U.S. as per the new tax law and this resulted in a charge of Rs.1,304 for the year ended March 31, 2018. Such a charge primarily reflected the impact on our U.S. deferred tax assets of the new tax law's reduction in the U.S. corporate federal income tax rate from 35% to 21%.

### **Profit for the period**

As a result of the above, our net profit was Rs.9,806 million for the year ended March 31, 2018, representing 6.9% of our total revenues for such period, as compared to Rs.12,039 million for the year ended March 31, 2017, representing 8.5% of our total revenues for such period.

**Fiscal Year Ended March 31, 2017 compared to Fiscal Year Ended March 31, 2016****Revenues**

Our overall consolidated revenues were Rs.140,809 million for the year ended March 31, 2017, a decrease of 9% as compared to Rs.154,708 million for the year ended March 31, 2016. This revenue decline for the year ended March 31, 2017 was primarily due to decreased sales (largely driven by reduced prices) in our Global Generics segment's North America (the United States and Canada) business and constrained operations in Venezuela.

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

|   | For the year ended March 31,<br>2017 |                               | 2016     |                               | 2015     |                               |                   |     |   |
|---|--------------------------------------|-------------------------------|----------|-------------------------------|----------|-------------------------------|-------------------|-----|---|
|   | Revenues                             | % of<br>Total<br>Revenue<br>* | Revenues | % of<br>Total<br>Revenue<br>* | Revenues | % of<br>Total<br>Revenue<br>* |                   |     |   |
|   | (Rs. in millions)                    |                               |          |                               |          |                               |                   |     |   |
| Global Generics                                       | <b>Rs.115,409</b>                    | 82                            | %        | <b>Rs.128,062</b>             | 83       | %                             | <b>Rs.119,397</b> | 81  | % |
| North America (the United States and Canada)          | 63,601                               | 55                            | %        | 75,445                        | 59       | %                             | 63,564            | 53  | % |
| Europe  | 7,606                                | 7                             | %        | 7,732                         | 6        | %                             | 6,481             | 5   | % |
| India   | 23,131                               | 20                            | %        | 21,293                        | 17       | %                             | 17,870            | 15  | % |
| Russia and other countries of the former Soviet Union | 15,238                               | 13                            | %        | 14,176                        | 11       | %                             | 18,425            | 16  | % |
| Others  | 5,833                                | 5                             | %        | 9,416                         | 7        | %                             | 13,057            | 11  | % |
| PSAI  | <b>Rs.21,277</b>                     | 15                            | %        | <b>Rs.22,379</b>              | 14       | %                             | <b>Rs.25,456</b>  | 17  | % |
| North America (the United States and Canada)          | 3,569                                | 17                            | %        | 3,052                         | 14       | %                             | 4,605             | 18  | % |
| Europe  | 8,410                                | 40                            | %        | 9,313                         | 42       | %                             | 10,507            | 41  | % |
| India   | 1,750                                | 8                             | %        | 2,618                         | 12       | %                             | 3,288             | 13  | % |
| Others  | 7,548                                | 35                            | %        | 7,396                         | 32       | %                             | 7,056             | 28  | % |
| Proprietary Products and Others                       | <b>Rs.4,123</b>                      | 3                             | %        | <b>Rs.4,267</b>               | 3        | %                             | <b>Rs.3,336</b>   | 2   | % |
| Total   | <b>Rs.140,809</b>                    | 100                           | %        | <b>Rs.154,708</b>             | 100      | %                             | <b>Rs.148,189</b> | 100 | % |

\* This represents the segment's revenue from sales in the respective geography as a percentage of the total segment's revenue.

For the year ended March 31, 2017, the U.S. dollar, Euro and Russian rouble appreciated by approximately 2%, 2% and 3%, respectively, against the Indian rupee as compared to the year ended March 31, 2016. These changes in exchange rates increased our reported revenues because of the increase in Indian rupee realization from sales in U.S. dollars, Euros and Russian roubles.

## Segment analysis

### *Global Generics*

Revenues from our Global Generics segment were Rs.115,409 million for the year ended March 31, 2017, a decrease of 10% as compared to Rs.128,062 million for the year ended March 31, 2016. The revenue decline was largely attributable to this segment's operations in the United States and Venezuela.

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

a decrease of approximately 10% resulting from the net impact of changes in sales prices of the products in this segment; and

a decrease of approximately 3% resulting from a net decrease in the sales volumes of existing products in this segment, which includes lower sales from Venezuela due to the voluntary reduction of our supply of products to this country as a risk mitigation approach; and

the foregoing was partially offset by an increase of approximately 3% resulting from the introduction of new products during the year ended March 31, 2017.



*North America (the United States and Canada):* Our Global Generics segment's revenues from North America (the United States and Canada) were Rs.63,601 million for the year ended March 31, 2017, a decrease of 16% as compared to the year ended March 31, 2016. In U.S. dollar absolute currency terms (i.e., U.S. dollars without taking into account the effect of currency exchange rates), such revenues decreased by 18% for the year ended March 31, 2017 as compared to the year ended March 31, 2016.

This revenue decrease was largely attributable to the following:

reduced sales (primarily due to significant price erosion) as a result of increased competition for our key products, such as valganciclovir, decitabine and azacitidine;

a significant decline in our sale of products to McNeil Consumer Healthcare following the conclusion of some of our existing supply arrangements with them;

price erosion in other existing products of this segment's base business; and

the foregoing was partially offset by revenues from new products launched during the year ended March 31, 2017, such as nitroglycerin SLT (sublingual tablets), omeprazole sodium bicarbonate, and naproxen sodium IR (immediate-release).

During the year ended March 31, 2017, we made 26 new ANDA filings with the U.S. FDA. As of March 31, 2017 our cumulative filings were 265, which includes 3 NDA filings under section 505(b)(2) and 262 ANDA filings. These 262 ANDA filings include 8 ANDAs that we acquired from Teva Pharmaceutical Industries Ltd. ("Teva") and an affiliate of Allergan plc. As of March 31, 2017, we had 101 filings pending approval with the U.S. FDA (99 ANDAs and 2 NDAs under 505(b)(2) route). Of the 99 ANDAs which are pending approval, 62 are Paragraph IV filings, and we believe that we are the first to file with respect to 21 of these filings. Further, these 99 ANDAs which are pending for approval include 7 ANDAs acquired from Teva and Allergan's affiliate, of which 6 are Paragraph IV filings.

*India:* Our Global Generics segment's revenues from India were Rs.23,131 million, for the year ended March 31, 2017, an increase of 9% as compared to the year ended March 31, 2016. This growth was largely attributable to revenues from new brands launched in India between April 1, 2016 and March 31, 2017, and an increase in sales volumes of our existing products, which was partially offset by the decrease in sales prices of our existing products. According to IMS Health in its Moving Annual Total report for the year ended March 31, 2017, our secondary sales in India grew by 4.5% during such period, as compared to the India pharmaceutical market's growth of 9.1% during such period. During the year ended March 31, 2017, we launched 18 new brands in India.

*Emerging Markets:* Our Global Generics segment’s revenues from “Emerging Markets” (which is comprised of Russia, other countries of the former Soviet Union, Romania and certain other countries from our “Rest of the World” markets, primarily South Africa and Australia, as well as Venezuela) were Rs.21,071 million for the year ended March 31, 2017, a decrease of 11% as compared to the year ended March 31, 2016. As a result of the ongoing economic crisis in Venezuela, we have discontinued our base prescription drug supply business in that country. Adjusted for this, our Global Generics Segment’s revenues from our “Emerging Markets” for the year ended March 31, 2017 increased by 7% as compared to the year ended March 31, 2016. This revenue increase was largely attributable to increased revenues from Russia, as described below.

*Russia:* Our Global Generics segment’s revenues from Russia were Rs.11,547 million for the year ended March 31, 2017, an increase of 9% as compared to the year ended March 31, 2016. In Russian rouble absolute currency terms (i.e., Russian roubles without taking into account the effect of currency exchange rates), such revenues increased by 8% for the year ended March 31, 2017 as compared to the year ended March 31, 2016. This revenue increase was largely attributable to increased sales volumes of our existing products. Our over-the-counter (“OTC”) division’s revenues from Russia for the year ended March 31, 2017 were 40% of our total revenues from Russia.

According to IMS Health, as per its report for the year ended March 31, 2017, our sales value (in Russian roubles) growth and volume growth from Russia for such period, as compared to the Russian pharmaceutical market sales value (in Russian roubles) growth and volume growth for such period, was as follows:

|                        | Year ended March 31, 2017 |         |                               |          |
|------------------------|---------------------------|---------|-------------------------------|----------|
|                        | Dr. Reddy's               |         | Russian pharmaceutical market |          |
|                        | Sales value               | Volume  | Sales value                   | Volume   |
| Prescription (Rx)      | 3.07%                     | 2.38 %  | 2.61 %                        | (4.92% ) |
| Over-the-counter (OTC) | 6.81%                     | 12.80 % | 10.88 %                       | (1.02% ) |
| Total (Rx + OTC)       | 4.49%                     | 5.13 %  | 5.60 %                        | (3.92% ) |

As per the above referenced IMS Health report, our volume-based market shares in Russia for the years ended March 31, 2017 and 2016 were as follows:

|                        | Year ended March 31, |   |      |   |
|------------------------|----------------------|---|------|---|
|                        | 2017                 |   | 2016 |   |
| Prescription (Rx)      | 4.30                 | % | 4.50 | % |
| Over-the-counter (OTC) | 0.71                 | % | 0.66 | % |
| Total (Rx + OTC)       | 1.77                 | % | 1.77 | % |

*Other countries of the former Soviet Union and Romania:* Our Global Generics segment's revenues from other countries of the former Soviet Union and Romania were Rs.3,692 million for the year ended March 31, 2017, an increase of 4% as compared to the year ended March 31, 2016. This increase was largely attributable to the increased revenues from our existing products, as well as revenues from new products launched between April 1, 2016 and March 31, 2017, including omez injection, bortezomib, flucold, levolet and telmisartan.

*"Rest of the World" Markets:* We refer to all markets of this segment other than North America (the United States and Canada), Europe, Russia and other countries of the former Soviet Union, Romania and India as our "Rest of the World" markets. Our Global Generics segment's revenues from our "Rest of the World" markets were Rs.5,833 million for the year ended March 31, 2017, a decrease of 38% as compared to the year ended March 31, 2016. As a result of the ongoing economic crisis in Venezuela, we have discontinued our base prescription drug supply business in that country. Adjusted for this, revenues from our "Rest of the World" markets for the year ended March 31, 2017 increased by 6% as compared to the year ended March 31, 2016.

*Europe:* Our Global Generics segment's revenues from Europe are primarily derived from Germany, the United Kingdom and our out-licensing business across Europe, and were Rs.7,606 million for the year ended March 31, 2017, a decrease of 2% as compared to the year ended March 31, 2016. This decrease was primarily due to the impact of depreciation of the British pound sterling, largely driven by the Brexit vote.

### ***Pharmaceutical Services and Active Ingredients***

Our PSAI segment's revenues were Rs.21,277 million for the year ended March 31, 2017, a decrease of 5% as compared to the year ended March 31, 2016. After taking into account the impact of exchange rate fluctuations of the Indian rupee against multiple currencies in the markets in which we operate, this decrease in revenues was largely attributable to:

decreased sales of active pharmaceutical ingredients for the year ended March 31, 2017, primarily due to decreased sales volumes of existing products, which decreased our PSAI segment's revenues by approximately 8%; and

the foregoing was partially offset by increased customer orders for our pharmaceutical development services, which increased our PSAI segment's revenues by approximately 3%.

During the year ended March 31, 2017, we filed 82 Drug Master Files ("DMFs") worldwide. Cumulatively, our total worldwide DMFs as of March 31, 2017 were 754, including 202 DMFs in the United States.

## Gross Profit

Our total gross profit was Rs.78,356 million for the year ended March 31, 2017, representing 55.6% of our revenues for that period, as compared to Rs.92,281 million for the year ended March 31, 2016, representing 59.6% of our revenues for that period.

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

|                      | For the year ended March 31,<br>2017 |                             | 2016                |                             | 2015                |                             |                     |                             |
|----------------------|--------------------------------------|-----------------------------|---------------------|-----------------------------|---------------------|-----------------------------|---------------------|-----------------------------|
|                      | (Rs. in millions)                    |                             |                     |                             |                     |                             |                     |                             |
|                      | <b>Gross Profit</b>                  | <b>% of Segment Revenue</b> | <b>Gross Profit</b> | <b>% of Segment Revenue</b> | <b>Gross Profit</b> | <b>% of Segment Revenue</b> | <b>Gross Profit</b> | <b>% of Segment Revenue</b> |
| Global Generics      | Rs. 71,079                           | 62 %                        | Rs. 84,427          | 66 %                        | Rs. 77,569          | 65 %                        |                     |                             |
| PSAI                 | 4,473                                | 21 %                        | 4,931               | 22 %                        | 5,709               | 22 %                        |                     |                             |
| Proprietary Products | 1,951                                | 83 %                        | 2,217               | 83 %                        | 1,796               | 83 %                        |                     |                             |
| Others               | 853                                  | 49 %                        | 706                 | 44 %                        | 329                 | 28 %                        |                     |                             |
| <b>Total</b>         | <b>Rs. 78,356</b>                    | <b>56 %</b>                 | <b>Rs. 92,281</b>   | <b>60 %</b>                 | <b>Rs. 85,403</b>   | <b>58 %</b>                 |                     |                             |

After taking into account the impact of the exchange rate fluctuations of the Indian rupee against multiple currencies in the markets in which we operate, the gross profit from our Global Generics segment decreased to 61.6% for the year ended March 31, 2017, as compared to 65.9% for the year ended March 31, 2016. This decrease was largely attributable to the impact of changes in our existing business mix (i.e., a decrease in the proportion of sales of higher gross margin products and an increase in the proportion of sales of lower gross margin products).

The gross profit from our PSAI segment decreased to 21.0% for the year ended March 31, 2017, from 22.0% for the year ended March 31, 2016. This decrease was primarily due to a decrease in sales of products with higher gross profit margins during the year ended March 31, 2017.

### **Selling, general and administrative expenses**

Our selling, general and administrative expenses were Rs.46,372 million for the year ended March 31, 2017, an increase of 1% as compared to Rs.45,702 million for the year ended March 31, 2016. After taking into account the impact of exchange rate fluctuations of the Indian rupee against multiple currencies in the markets in which we operate, this increase was largely attributable to the following:

increased sales and marketing expenses, primarily on account of a provision of Rs.374 million as a potential liability arising out of a litigation relating to cardiovascular and anti-diabetic formulations (refer to Note 39 of our consolidated financial statements for further details), as well as higher spending in India, Russia and Proprietary products, all of which increased our selling, general and administrative expenses by approximately 4%; and

the foregoing was partially offset by decreased other costs, which decreased our selling, general and administrative expenses by approximately 2%.

As a proportion of our total revenues, our selling, general and administrative expenses increased to 32.9% for the year ended March 31, 2017 as compared to 29.5% for the year ended March 31, 2016.

### **Research and development expenses**

Our research and development expenses were Rs.19,551 million for the year ended March 31, 2017, an increase of 10% as compared to Rs.17,834 million for the year ended March 31, 2016. This increase was in accordance with our strategy to expand our research and development efforts in complex formulations, differentiated formulations and

biosimilar compounds. In addition, our research and development expenses for the year ended March 31, 2017 include costs incurred towards assets in-licensed from Xenoport, Inc. and Eisai Co., Limited. Our research and development expenses increased to 13.9% of our total revenues for the year ended March 31, 2017, as compared to 11.5% of our total revenues for the year ended March 31, 2016.

**Other (income)/expense, net**

Our net other income was Rs.1,065 million for the year ended March 31, 2017, an increase of 22% as compared to net other income of Rs.874 million for the year ended March 31, 2016.

**Finance (expense)/income, net**

Our net finance income was Rs.806 million for the year ended March 31, 2017, as compared to net finance expense of Rs.2,708 million for the year ended March 31, 2016. The decrease in net finance expense was attributable to:

net foreign exchange loss of Rs.74 million for the year ended March 31, 2017, as compared to net foreign exchange loss of Rs.4,133 million for the year ended March 31, 2016;

net interest expense of Rs.77 million for the year ended March 31, 2017, as compared to net interest income of Rs.573 million for the year ended March 31, 2016; and

profit on sale of investments of Rs.957 million for the year ended March 31, 2017, as compared to profit on sale of investments of Rs.852 million for the year ended March 31, 2016.

**Profit before tax**

As a result of the above, profit before taxes was Rs.14,653 million for the year ended March 31, 2017, a decrease of 46% as compared to Rs.27,140 million for the year ended March 31, 2016.

**Tax expense**

Our consolidated weighted average tax rates for the years ended March 31, 2017 and 2016 were 18% and 26%, respectively. Income tax expense was Rs.2,615 for the year ended March 31, 2017, as compared to income tax expense of Rs. 7,127 for the year ended March 31, 2016. Our effective tax rate for the year ended March 31, 2017 decreased by 8% as compared to the year ended March 31, 2016, primarily due to the resolution of a certain tax matter resulting in a reversal of Rs.1,370 in income tax expense pertaining to earlier years.

**Profit for the period**

As a result of the above, our net profit was Rs.12,039 million for the year ended March 31, 2017, representing 8.5% of our total revenues for such period, as compared to Rs.20,013 million for the year ended March 31, 2016, representing 12.9% of our total revenues for such period.

**Fiscal Year Ended March 31, 2016 compared to Fiscal Year Ended March 31, 2015****Revenues**

Our overall consolidated revenues were Rs.154,708 million for the year ended March 31, 2016, an increase of 4% as compared to Rs.148,189 million for the year ended March 31, 2015. Revenue growth for the year ended March 31, 2016 was largely driven by our Global Generics segment's operations in the United States, India and Europe markets.

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

|   | For the year ended March 31,<br>2016 |                               | 2015     |                               | 2014     |                               |                    |     |   |
|---|--------------------------------------|-------------------------------|----------|-------------------------------|----------|-------------------------------|--------------------|-----|---|
|   | Revenues                             | % of<br>Total<br>Revenue<br>* | Revenues | % of<br>Total<br>Revenue<br>* | Revenues | % of<br>Total<br>Revenue<br>* |                    |     |   |
|   | (Rs. in millions)                    |                               |          |                               |          |                               |                    |     |   |
| Global Generics                                       | <b>Rs. 128,062</b>                   | 83                            | %        | <b>Rs. 119,397</b>            | 81       | %                             | <b>Rs. 104,483</b> | 79  | % |
| North America (the United States and Canada)          | 75,445                               | 59                            | %        | 63,564                        | 53       | %                             | 54,622             | 52  | % |
| Europe  | 7,732                                | 6                             | %        | 6,481                         | 5        | %                             | 6,110              | 6   | % |
| India   | 21,293                               | 17                            | %        | 17,870                        | 15       | %                             | 15,713             | 15  | % |
| Russia and other countries of the former Soviet Union | 14,176                               | 11                            | %        | 18,425                        | 16       | %                             | 20,679             | 20  | % |
| Others  | 9,416                                | 7                             | %        | 13,057                        | 11       | %                             | 7,359              | 7   | % |
| PSAI  | <b>Rs. 22,379</b>                    | 14                            | %        | <b>Rs. 25,456</b>             | 17       | %                             | <b>Rs. 23,974</b>  | 18  | % |
| North America (the United States and Canada)          | 3,052                                | 14                            | %        | 4,605                         | 18       | %                             | 3,820              | 16  | % |
| Europe  | 9,313                                | 42                            | %        | 10,507                        | 41       | %                             | 9,058              | 38  | % |
| India   | 2,618                                | 12                            | %        | 3,288                         | 13       | %                             | 3,787              | 16  | % |
| Others  | 7,396                                | 32                            | %        | 7,056                         | 28       | %                             | 7,309              | 30  | % |
| Proprietary Products and Others                       | <b>Rs. 4,267</b>                     | 3                             | %        | <b>Rs. 3,336</b>              | 2        | %                             | <b>Rs. 3,713</b>   | 3   | % |
| Total   | <b>Rs. 154,708</b>                   | 100                           | %        | <b>Rs. 148,189</b>            | 100      | %                             | <b>Rs. 132,170</b> | 100 | % |

\* This represents the segment's revenue from sales in the respective geography as a percentage of the total segment's revenue.



During the year ended March 31, 2016, the U.S. dollar appreciated by approximately 7% against the Indian rupee, while the Euro and the Russian rouble depreciated by approximately 7% and 27%, respectively, against the Indian rupee as compared to the year ended March 31, 2015. These changes in exchange rates increased our reported revenues because of the increase in Indian rupee realization from sales in U.S. dollars, partially offset by the decrease in Indian rupee realization from sales in Euros and Russian roubles. However, our higher realization for the U.S. dollar was offset by net losses realized on cash flow hedges undertaken by us to hedge the foreign currency risk associated with highly probable forecast sales transactions.

## **Segment analysis**

### *Global Generics*

Revenues from our Global Generics segment were Rs.128,062 million for the year ended March 31, 2016, an increase of 7% as compared to Rs.119,397 million for the year ended March 31, 2015. The revenue growth was largely led by this segment's operations in the United States, India and Europe.

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

an increase of approximately 4% resulting from the introduction of new products during the year ended March 31, 2016;

· a decrease of approximately 8% resulting from the net impact of decreases in sales prices of products; and

an increase of approximately 11% resulting from increased sales volumes of existing products (including the annualized impact of products launched during the year ended March 31, 2015).

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

*North America (the United States and Canada):* Our Global Generics segment’s revenues from North America (the United States and Canada) were Rs.75,445 million for the year ended March 31, 2016, an increase of 19% as compared to the year ended March 31, 2015. In U.S. dollar absolute currency terms (i.e., U.S. dollars without taking into account the effect of currency exchange rates), such revenues increased by 12% for the year ended March 31, 2016 as compared to the year ended March 31, 2015.

This revenue growth was largely attributable to the following:

- revenues from new products launched during the year ended March 31, 2016, such as esomeprazole, memantine and pramipexole;

- a gain in market share of certain of our existing products, such as valganciclovir, Habitrol®, isotretinoin 30mg, metoprolol, decitabine injection, and sumatriptan injection; and

- the foregoing was partially offset by lower realization from certain of our existing products due to price decreases.

The following table sets forth products that we launched in the United States during the year ended March 31, 2016:

| <b>Product</b>  | <b>Innovator’s Brand</b> | <b>Innovator</b>     |
|-----------------|--------------------------|----------------------|
| Esomeprazole DR | Nexium®                  | AstraZeneca          |
| Pramipexole ER  | Mirapex®                 | Boehringer Ingelheim |
| Memantine       | Namenda®                 | Eli Lilly            |
| Pravastatin     | Pravachol®               | Bristol Myers Squibb |

During the year ended March 31, 2016, we made 14 filings in the United States, including 13 ANDA filings and one NDA filing under section 505(b)(2) of the Federal Food, Drug and Cosmetic Act (a “505(b)(2) NDA”). As of March 31, 2016 our cumulative filings in the United States were 236 including 233 ANDA filings and three 505(b)(2) NDA filings. As of March 31, 2016, we had 82 filings pending approval at the U.S. FDA including 79 ANDA filings and three 505(b)(2) NDA filings, of which 52 are Paragraph IV filings, and we believe we are the first to file with respect to 18 of these filings.

*India:* Our revenues from India for the year ended March 31, 2016 were Rs.21,293 million, an increase of 19% as compared to the year ended March 31, 2015. This growth was largely attributable to the increase in sales volumes across our key brands and revenues from new brands launched during the year ended March 31, 2016. The products that we acquired from UCB accounted for approximately 7% of the revenue growth for our India business. According to IMS Health in its Moving Annual Total report for the year ended March 31, 2016, our secondary sales in India grew by 12.2% during such period, as compared to the Indian pharmaceutical market's growth of 14.4% during such period. During the year ended March 31, 2016, we launched 17 new brands in India.

*Emerging Markets:* Our revenues from our "Emerging Markets" (which is comprised of Russia, other countries of the former Soviet Union, Romania, and certain other countries from our "Rest of the World" markets, primarily South Africa and Australia, as well as Venezuela) for the year ended March 31, 2016 were Rs.23,591 million, a decrease of 25% as compared to the year ended March 31, 2015. The reasons for this decrease are set forth below in the separate discussions of these geographies.

*Russia:* Our Global Generics segment's revenues from Russia were Rs.10,640 million for the year ended March 31, 2016, a decrease of 29% as compared to the year ended March 31, 2015. In Russian rouble absolute currency terms (i.e., Russian roubles without taking into account the effect of currency exchange rates), such revenues increased by 1% for the year ended March 31, 2016 as compared to the year ended March 31, 2015. Our over-the-counter ("OTC") division's revenues from Russia for the year ended March 31, 2016 were 39% of our total revenues from Russia, and we intend to further strengthen our OTC sales by continuous branding initiatives.

According to IMS Health, as per its report for the year ended March 31, 2016, our sales value (in Russian roubles) growth and volume growth from Russia, as compared to the Russian pharmaceutical market sales value (in Russian roubles) growth and volume growth for the year ended March 31, 2016 was as follows:

|                        | Year ended March 31, 2016 |          |                               |          |
|------------------------|---------------------------|----------|-------------------------------|----------|
|                        | Dr. Reddy's               |          | Russian pharmaceutical market |          |
|                        | Sales value               | Volume   | Sales value                   | Volume   |
| Prescription (Rx)      | 2.61 %                    | (4.92 %) | 10.25 %                       | (1.07 %) |
| Over-the-counter (OTC) | 10.88 %                   | (1.02 %) | 6.73 %                        | (5.09 %) |
| Total (Rx + OTC)       | 5.60 %                    | (3.92 %) | 8.36 %                        | (3.96 %) |

As per the above referenced IMS Health report, our volume-based market shares in Russia for the years ended March 31, 2016 and 2015 were as follows:

|                        | Year ended March 31, |        |      |  |
|------------------------|----------------------|--------|------|--|
|                        | 2016                 |        | 2015 |  |
| Prescription (Rx)      | 4.50 %               | 4.68 % |      |  |
| Over-the-counter (OTC) | 0.66 %               | 0.63 % |      |  |
| Total (Rx + OTC)       | 1.77 %               | 1.77 % |      |  |

*Other countries of the former Soviet Union and Romania:* Our revenues from other countries of the former Soviet Union and Romania for the year ended March 31, 2016 were Rs.3,536 million, an increase of 1% over the year ended March 31, 2015. This increase was largely on account of an increase in sales volumes in Romania and Ukraine, partially offset by depreciation of the Ukrainian hryvnia against the Indian rupee. During the year ended March 31, 2016, the Ukrainian hryvnia depreciated by approximately 34% as compared to the year ended March 31, 2015.

*Rest of the World Markets:* We refer to all markets of this segment other than North America, Europe, Russia and other countries of the former Soviet Union, Romania and India as our “Rest of the World” markets. Our revenues from our “Rest of the World” markets were Rs.9,416 million for the year ended March 31, 2016, a decrease of 28% as compared to the year ended March 31, 2015. The decrease was largely led by decreased revenues in Venezuela primarily due to reduction in the sales volume of our existing products. Our sales in Venezuela were Rs.4,666 million for the year ended March 31, 2016, as compared to Rs.8,335 million for the year ended March 31, 2015. This reduction in sales was primarily attributable to the ongoing economic crisis in the country and, correspondingly, our risk mitigation approach by way of moderating the supply of products to this country.

*Europe:* Our Global Generics segment's revenues from Europe were Rs.7,732 million for the year ended March 31, 2016, an increase of 19% as compared to the year ended March 31, 2015. This growth was led by revenues from new products launched during the year ended March 31, 2015.

### ***Pharmaceutical Services and Active Ingredients***

Our PSAI segment's revenues for the year ended March 31, 2016 were Rs.22,379 million, a decrease of 12% as compared to the year ended March 31, 2015. After taking into account the impact of the exchange rate fluctuations of the Indian rupee against multiple currencies in the markets in which we operate, this decrease was largely attributable to:

decreased sales of active pharmaceutical ingredients for the year ended March 31, 2016, primarily attributable to decreased sales volumes and sales prices of existing products, which decreased our PSAI segment's revenues by approximately 13%; and

increased customer orders in our pharmaceutical development services for certain products provided to innovator companies, which increased our PSAI segment's revenues by approximately 1%.

During the year ended March 31, 2016, we filed 50 DMFs worldwide. Cumulatively, our total worldwide DMFs as of March 31, 2016 were 768, including 218 DMFs in the United States.

### **Gross Profit**

Our total gross profit was Rs.92,281 million for the year ended March 31, 2016, representing 59.6% of our total revenues for this period, as compared to Rs.85,403 million for the year ended March 31, 2015, representing 57.6% of our total revenues for such period.

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

|  | For the year ended March 31, |                             |  |                     |                             |  |                     |                             |  |
|--|------------------------------|-----------------------------|--|---------------------|-----------------------------|--|---------------------|-----------------------------|--|
|  | 2016                         |                             |  | 2015                |                             |  | 2014                |                             |  |
|  | <b>(Rs. in millions)</b>     |                             |  |                     |                             |  |                     |                             |  |
|  | <b>Gross Profit</b>          | <b>% of Segment Revenue</b> |  | <b>Gross Profit</b> | <b>% of Segment Revenue</b> |  | <b>Gross Profit</b> | <b>% of Segment Revenue</b> |  |
| Global Generics                                | Rs. 84,427                   | 66 %                        |  | Rs. 77,569          | 65 %                        |  | Rs. 68,544          | 66 %                        |  |
| Pharmaceutical Services and Active Ingredients | 4,931                        | 22 %                        |  | 5,709               | 22 %                        |  | 4,848               | 20 %                        |  |
| Proprietary Products                           | 2,217                        | 83 %                        |  | 1,796               | 83 %                        |  | 2,210               | 90 %                        |  |
| Others   | 706                          | 44 %                        |  | 329                 | 28 %                        |  | 199                 | 16 %                        |  |
| <b>Total</b>                                   | <b>Rs. 92,281</b>            | <b>60 %</b>                 |  | <b>Rs. 85,403</b>   | <b>58 %</b>                 |  | <b>Rs. 75,801</b>   | <b>57 %</b>                 |  |

After taking into account the impact of the exchange rate fluctuations of the Indian rupee against multiple currencies in the markets in which we operate, the gross profit from our Global Generics segment increased to 65.9% for the year ended March 31, 2016 from 65.0% for the year ended March 31, 2015. This increase was largely attributable to the impact of changes in our existing business mix (i.e., an increase in the proportion of sales of higher gross margin products and a decrease in the proportion of sales of lower gross margin products).

The gross profit from our PSAI segment decreased to 22.0% for the year ended March 31, 2016, from 22.4% for the year ended March 31, 2015. This decrease was primarily due to a decrease in sales of products with higher gross profit margins during the year ended March 31, 2016.

### **Selling, general and administrative expenses**

Our selling, general and administrative expenses were Rs.45,702 million for the year ended March 31, 2016, an increase of 7% as compared to Rs.42,585 million for the year ended March 31, 2015. After taking into account the impact of exchange rate fluctuations of the Indian rupee against multiple currencies in the markets in which we operate, this increase was largely attributable to the following:

- increased costs due to the ongoing remediation activities related to the warning letter received from the U.S. FDA for three of our manufacturing facilities in India, which increased our selling, general and administrative expenses by

approximately 5%;

increased personnel costs, due to annual raises and new recruitments, which increased our selling, general and administrative expenses by approximately 3%;

increased amortization, primarily due to our acquisition of the Habitrol® brand in December 2014 and acquisition of a select portfolio of products business of UCB in June 2015, which increased our selling, general and administrative expenses by approximately 2%;

for the year ended March 31, 2016 we had recorded impairment losses of Rs.61 million, as compared to impairment losses of Rs.509 million recorded for the year ended March 31, 2015, which resulted in an approximately 1% difference in selling, general and administrative expenses between the two periods; and

decreased sales and marketing costs, which decreased our selling, general and administrative expenses by approximately 1%.

As a proportion of our total revenues, our selling, general and administrative expenses increased to 29.5% for the year ended March 31, 2016 from 28.7% for the year ended March 31, 2015.

### **Research and development expenses**

Our research and development expenses were Rs.17,834 million for the year ended March 31, 2016, an increase of 2% as compared to Rs.17,449 million for the year ended March 31, 2015. This increase was in accordance with our strategy to expand our research and development efforts in complex formulations, differentiated formulations and biosimilar compounds. Approximately 65% of our research and development expenses for the year ended March 31, 2016 were incurred for the development of bio-equivalent products, and the other 35% was dedicated to innovative and bio-pharmaceutical research.

**Other (income)/expense, net**

Our net other income was Rs.874 million for the year ended March 31, 2016, as compared to net other income of Rs.917 million for the year ended March 31, 2015.

**Finance (expense)/income, net**

Our net finance expense was Rs.2,708 million for the year ended March 31, 2016, as compared to net finance income of Rs.1,682 million for the year ended March 31, 2015. The increase in net finance expense was attributable to:

net foreign exchange gain of Rs.488 million (excluding the impact of our Venezuela operations described below) for the year ended March 31, 2016, as compared to net foreign exchange gain of Rs.1,801 million for the year ended March 31, 2015;

foreign exchange losses related to our Venezuela operations of Rs.4,621 million for the year ended March 31, 2016, as compared to such losses of Rs.843 million for the year ended March 31, 2015. Refer to Note 38 to our consolidated financial statements for further details;

net interest income of Rs.573 million for the year ended March 31, 2016, as compared to net interest expense of Rs.31 million for the year ended March 31, 2015; and

profit on sale of investments of Rs.852 million for the year ended March 31, 2016, as compared to profit on sale of investments of Rs.755 million for the year ended March 31, 2015.

**Profit before tax**

As a result of the above, profit before taxes was Rs.27,140 million for the year ended March 31, 2016, a decrease of 4% as compared to Rs.28,163 million for the year ended March 31, 2015.

**Tax expense**



Our consolidated weighted average tax rate for the year ended March 31, 2016 was 26%, as compared to 21% for the year ended March 31, 2015. Income tax expense was Rs.7,127 million for the year ended March 31, 2016, as compared to income tax expense of Rs.5,984 million for the year ended March 31, 2015.

The increase in our effective tax rate for the year ended March 31, 2016 was primarily attributable to the following:

non-deductible losses related to our Venezuela operations, which resulted in an increase in our effective tax rate by approximately 3.8% (refer to Note 38 of our consolidated financial statements for further details);

deferred tax expense on undistributed earnings of a subsidiary outside India, which resulted in an increase in our effective tax rate by approximately 1.9%;

an increase in the effective tax rate by approximately 1.8% due to non-recognition of certain deferred tax assets, as we believe that availability of taxable profits against which the temporary differences can be utilized is not probable;

recognition of a previously unrecognized deferred tax asset pertaining to a jurisdiction outside of India, which resulted in a decrease in our effective tax rate by approximately 1.1%; and

an increase in weighted deduction on eligible research and development expenditure in India, during the year ended March 31, 2016, as compared to the year ended March 31, 2015, has resulted in a decrease in the effective tax rate by 1.8%. The rate of weighted deduction on our eligible research and development expenditure was equal to 200% for the years ended March 31, 2016 and 2015, respectively.

### **Profit for the period**

As a result of the above, our net result was a net profit of Rs.20,013 million for the year ended March 31, 2016, as compared to a net profit of Rs.22,179 million for the year ended March 31, 2015.

*5.B. Liquidity and capital resources*

**Liquidity**

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

Our principal sources of short-term liquidity are internally generated funds and short-term borrowings, which we believe are sufficient to meet our working capital requirements. We borrowed U.S.\$150 million during the year ended March 31, 2014, which was to be repaid in five quarterly installments beginning February 2018. During the three months ended December 31, 2016, we entered into a financing arrangement with certain financial institutions to refinance this borrowing of U.S.\$150 million. As per the repayment schedule applicable to the refinanced borrowing, we repaid U.S.\$75 million on November 28, 2016 (refer to Note 17 to our consolidated financial statements for further details). These loans were incurred primarily to repay some of our then existing short term borrowings and to meet anticipated capital expenditures over the near term.

During the three months ended September 30, 2016, Dr. Reddy's Laboratories, SA, one of our subsidiaries, in Switzerland (the "Swiss Subsidiary"), borrowed U.S.\$350 million of short-term loans from certain institutional lenders (refer to Note 17 to our consolidated financial statements for further details). These loans were borrowed for the purpose of funding the acquisition of eight ANDAs from Teva and an affiliate of Allergan plc in the United States (refer to Note 33 of our consolidated financial statements for additional details). During the three months ended June 30, 2017, the entire short-term borrowing of U.S.\$350 was repaid.

During the three months ended June 30, 2017, the Swiss Subsidiary borrowed U.S.\$250 million from certain institutional lenders (refer to Note 17 to our consolidated financial statements for further details), of which U.S.\$200 million is required to be repaid in one balloon installment due on the 60 month anniversary of the date of the loan, and the remaining U.S.\$50 million is repayable in five equal quarterly installments of U.S.\$10 million each, commencing at the end of the 30 month anniversary and continuing until the 42 month anniversary of the date of the loan.

During the three months ended June 30, 2017, Reddy Holding GmbH, one of our subsidiaries in Germany, borrowed EUR 42 million, which is repayable in three equal installments due at the end of the two, three and four year anniversaries of the date of the loan.

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

|  | For the year ended March 31, |           |           |
|--|------------------------------|-----------|-----------|
|  | 2018                         | 2017      | 2016      |
|  | (Rs. in millions)            |           |           |
| Net cash provided by/(used in):                      |                              |           |           |
| Operating activities                                 | Rs.18,029                    | Rs.21,513 | Rs.41,247 |
| Investing activities                                 | (14,883)                     | (18,471)  | (20,423)  |
| Financing activities                                 | (4,440 )                     | (3,692 )  | (17,001)  |
| Net increase/(decrease) in cash and cash equivalents | (1,294 )                     | (650 )    | 3,823     |
| Effect of exchange rate changes on cash              | 57                           | (492 )    | (4,296 )  |

In addition to cash, inventory and our balance of accounts receivable, our unused sources of liquidity included Rs.24,046 million in available credit under revolving credit facilities with banks as of March 31, 2018. We had no other material unused sources of liquidity as of March 31, 2018.

#### Cash Flow from Operating Activities

*Year ended March 31, 2018 compared to year ended March 31, 2017*

Our profit before interest expense/income, profit/loss on sale of investments, tax expense, impairment loss, depreciation and amortization was Rs.24,082 million for the year ended March 31, 2018, as compared to Rs.25,495 million, for the year ended March 31, 2017.

The net result of our operating activities was a net cash inflow of Rs.18,029 million for the year ended March 31, 2018, as compared to a net cash inflow of Rs.21,513 million for the year ended March 31, 2017. Accordingly, our net cash inflow decreased by Rs.3,484 million during the year ended March 31, 2018 as compared to the year ended March 31, 2017, primarily due to increases in working capital requirements as described below.

Increases in working capital accounted for net cash outflows of Rs.8,992 million and Rs.5,350 million during the years ended March 31, 2018 and 2017, respectively. This increase in working capital requirements during the year ended March 31, 2018, as compared to the year ended March 31, 2017, resulted in a significant decrease in our net cash provided by operating activities. The increase in working capital requirements during the year ended March 31, 2018 primarily resulted from an increase in our inventories by Rs.3,233 million and increase in our trade receivables by Rs.2,097 million. The increase in total inventories was primarily on account of an increase in the inventories held for our new product launches.

Our days' sales outstanding ("DSO") as at March 31, 2018 and March 31, 2017, were 102 days and 96 days, respectively. The increase in our DSO was primarily on account of (a) changes in the mix of our receivables, due to increase in the proportion of receivables from our customers with longer credit periods in the United States; and (b) an increase in the trade receivables in our API and Russia businesses.

*Year ended March 31, 2017 compared to year ended March 31, 2016*

Our profit for the year before interest expense/income, profit/loss on sale of investments, tax expense, impairment loss, depreciation and amortization was Rs.25,495 million for the year ended March 31, 2018, as compared to Rs.36,253 million, for the year ended March 31, 2017.

The net result of our operating activities was a net cash inflow of Rs.21,513 million for the year ended March 31, 2017, as compared to a net cash inflow of Rs.41,247 million for the year ended March 31, 2016. Accordingly, our net cash inflow decreased by Rs.19,734 million during the year ended March 31, 2017 as compared to the year ended March 31, 2016, primarily due to increases in working capital requirements and decreases in our earnings as described below.

Increases in working capital accounted for net cash outflows of Rs.5,350 million and Rs.188 million during the years ended March 31, 2017 and 2016, respectively. This increase in working capital requirements during the year ended March 31, 2017, as compared to the year ended March 31, 2016, resulted in a significant decrease in our net cash provided by operating activities. The increase in working capital requirements during the year ended March 31, 2017 primarily resulted from an increase in our inventories by Rs.6,325 million. The decrease in our earnings during the year ended March 31, 2017 was primarily due to lower sales of some of our key products on account of increased competition.

Our days' sales outstanding ("DSO") as at March 31, 2017 and March 31, 2016, were 96 days and 99 days, respectively. The decrease in our DSO was primarily due to improved collections from customers in the United States.

Cash Flow from Investing Activities

*Year ended March 31, 2018 compared to year ended March 31, 2017*

Our investing activities resulted in a net cash outflow of Rs.14,883 million for the year ended March 31, 2018, as compared to Rs.18,471 million for the year ended March 31, 2017. This decrease in net cash outflow of Rs.3,588 million was primarily due to:

a net decrease of Rs.26,954 in the net cash outflow attributable to key acquisitions during the year ended March 31, 2018 as compared to the year ended March 31, 2017, as follows:

o Rs.23,366 million was paid to Teva and an affiliate of Allergan plc for the acquisition of eight ANDAs during the year ended March 31, 2017 (refer to Note 33 of our consolidated financial statements for further details); and

o Rs.3,159 million was paid to XenoPort, Inc. for the acquisition of exclusive U.S. rights for the development and commercialization of a clinical stage oral new chemical entity which forms a part of our Proprietary Products segment, during the year ended March 31, 2017 (refer to Note 34 of our consolidated financial statements for further details).

net decrease in amounts spent on property, plant and equipment by Rs.3,082 million during the year ended March 31, 2018 as compared to the year ended March 31, 2017; and

the foregoing was partially offset by an increase in net cash outflow by Rs.26,335 million for the year ended March 31, 2018, as compared to the year ended March 31, 2017, through investments in mutual funds and fixed deposits having an original maturity of more than three months.

*Year ended March 31, 2017 compared to year ended March 31, 2016*

Our investing activities resulted in a net cash outflow of Rs.18,471 million for the year ended March 31, 2017, as compared to Rs.20,423 million for the year ended March 31, 2016. This decrease in net cash outflow of Rs.1,952 million was primarily due to:

an increase in net cash inflow by Rs.20,923 million for the year ended March 31, 2017, as compared to the year ended March 31, 2016, in the proceeds from redemption of investments in mutual funds and fixed deposits having an original maturity of more than three months;

the foregoing was partially offset by a net increase in amounts spent on property, plant and equipment by Rs.301 million during the year ended March 31, 2017 as compared to the year ended March 31, 2016; and

in addition, the foregoing was also partially offset by a net increase of Rs.18,579 in the net cash outflow attributable to key acquisitions during the year ended March 31, 2017 as compared to the year ended March 31, 2016, as follows:

Rs.7,936 million was paid to UCB India Private Limited and other UCB group companies (“UCB”) for the acquisition of a select portfolio of established products business during the year ended March 31, 2016 (refer to Note 34 of our consolidated financial statements for further details);

Rs.1,158 million was paid to Alchemia Limited for the purchase of worldwide, exclusive intellectual property rights to fondaparinux sodium during the year ended March 31, 2016 (refer to Note 34 of our consolidated financial statements for further details);

Rs.23,366 million was paid to Teva and an affiliate of Allergan plc for the acquisition of eight ANDAs during the year ended March 31, 2017 (refer to Note 33 of our consolidated financial statements for further details);

Rs.3,159 million was paid to XenoPort, Inc. for the acquisition of exclusive U.S. rights for the development and commercialization of a clinical stage oral new chemical entity which forms a part of our Proprietary Products segment, during the year ended March 31, 2017 (refer to Note 34 of our consolidated financial statements for further details);

Rs.1,148 million paid to Ducere Pharma LLC for the purchase of six OTC brands which forms a part of our Global Generics segment, during the year ended March 31, 2017 (refer to Note 34 of our consolidated financial statements for further details);

Cash Flow from Financing Activities

*Year ended March 31, 2018 compared to year ended March 31, 2017*

Our financing activities resulted in a net cash outflow of Rs.4,440 million for the year ended March 31, 2018, as compared to Rs.3,692 million for the year ended March 31, 2017.

During the year ended March 31, 2018, there was a decrease in net short-term borrowings by Rs.18,024 million, primarily on account of repayment of Rs.23,222 million by our Swiss subsidiary, which was offset by an increase in long-term borrowings of Rs.18,907 million incurred by our subsidiaries in Switzerland and Germany. Furthermore, we also paid dividends (including dividend distribution taxes) of Rs.3,992 million.

During the year ended March 31, 2017, we bought back and extinguished 5,077,504 equity shares for an aggregate purchase price of Rs.15,694 million (refer to Note 15 of our consolidated financial statements for further details). In addition, we repaid long term borrowings of Rs.5,220 million, which primarily consisted of the partial repayment of a U.S.\$150 million loan by our parent company (refer to Note 17 to our consolidated financial statements for further details). Furthermore, we incurred net short-term borrowings of Rs.21,536 million during the year ended March 31, 2017, including borrowings of Rs.23,366 million (U.S.\$350 million) by our Swiss subsidiary for the purpose of acquiring eight ANDAs from Teva and an affiliate of Allergan plc (refer to note 33 of our consolidated financial statements for further details). Furthermore, we also paid dividends (including dividend distribution taxes) of Rs.3,390 million.

*Year ended March 31, 2017 compared to year ended March 31, 2016*

Our financing activities resulted in a net cash outflow of Rs.3,692 million for the year ended March 31, 2017, as compared to Rs.17,001 million for the year ended March 31, 2016.

During the year ended March 31, 2017, we bought back and extinguished 5,077,504 equity shares for an aggregate purchase price of Rs.15,694 million (refer to Note 15 of our consolidated financial statements for further details). In addition, we repaid long term borrowings of Rs.5,220 million, which primarily consisted of the partial repayment of a U.S.\$150 million loan by our parent company (refer to Note 17 to our consolidated financial statements for further details). Furthermore, we incurred net short-term borrowings of Rs.21,536 million during the year ended March 31, 2017, including borrowings of Rs.23,366 million (U.S.\$350 million) by our Swiss subsidiary for the purpose of acquiring eight ANDAs from Teva and an affiliate of Allergan plc (refer to note 33 of our consolidated financial statements for further details). Furthermore, we also paid dividends (including dividend distribution taxes) of Rs.3,390 million.





During the year ended March 31, 2016, we repaid long term borrowings of Rs.11,706 million, which primarily consisted of the repayment of all long term borrowings by our subsidiaries in Switzerland and the United Kingdom (refer to Note 17 to our consolidated financial statements for further details). Furthermore, we also paid dividends (including dividend distribution taxes) of Rs.4,106 million and repaid short term loans of Rs.273 million during the year ended March 31, 2016.

### Principal obligations

The following table summarizes our principal debt obligations (excluding capital lease obligations) outstanding as of March 31, 2018:

| Principal debt obligations                        | Payments due by period |                  |           |                   |   |
|---|------------------------|------------------|-----------|-------------------|---|
|   | Total                  | Less than 1 year | 1-5 years | More than 5 years |   |
|   | (Rs. in millions)      |                  |           |                   |   |
| Short-term borrowings from banks                  | Rs.25,466              | Rs. 25,466       | Rs.-      | Rs.               | - |
| Long-term debt in foreign currency <sup>(1)</sup> | 24,576                 | -                | 24,576    | -                 | - |
| Total obligations                                 | Rs.50,042              | Rs. 25,466       | Rs.24,576 | Rs.               | - |

(1) Long-term debt obligations disclosed in the above table do not reflect any netting of transactions costs of Rs.117.

### Annual rate of interest

#### Short term borrowings

| As at March 31, 2018              |                     |          |                                       |                            |                            |
|-----------------------------------|---------------------|----------|---------------------------------------|----------------------------|----------------------------|
|                                   | Outstanding balance | Currency | Interest rate                         | Average amount outstanding | Maximum amount outstanding |
| (All amounts in Rs.millions)      |                     |          |                                       |                            |                            |
| Packing credit borrowings         | Rs.21,008           | USD      | 1 Month LIBOR + (30) to 30 bps        | Rs. 20,771                 | Rs. 22,879                 |
|                                   |                     | INR      | 6.00%                                 |                            |                            |
|                                   |                     | RUB      | 6.75%                                 |                            |                            |
| Other foreign currency borrowings | 4,458               | USD      | 1 Month/3 Months LIBOR + 65 to 85 bps | 7,383                      | 26,746                     |

|     |        |
|-----|--------|
| UAH | 18.00% |
| RUB | 8.20%  |

| As at March 31, 2017              |                        |          |                               |                                  |                                  |
|-----------------------------------|------------------------|----------|-------------------------------|----------------------------------|----------------------------------|
|                                   | Outstanding<br>balance | Currency | Interest rate                 | Average<br>amount<br>outstanding | Maximum<br>amount<br>outstanding |
| (All amounts in Rs.millions)      |                        |          |                               |                                  |                                  |
| Packing credit borrowings         | Rs.18,699              | USD      | 1 Month LIBOR + (30) to 1 bps | Rs. 20,725                       | Rs. 24,462                       |
|                                   |                        | USD      | 0.01%                         |                                  |                                  |
|                                   |                        | INR      | T-Bill + 30bps                |                                  |                                  |
|                                   |                        | INR      | 6.92% to 6.95%                |                                  |                                  |
|                                   |                        | RUB      | 9.95%                         |                                  |                                  |
| Other foreign currency borrowings | 24,840                 | USD      | 1 Month LIBOR + 40 to 60 bps  | 18,842                           | 29,043                           |
|                                   |                        | RUB      | 10.48%                        |                                  |                                  |

The maturities of our short-term borrowings from banks vary from one month to twelve months. Our objective in determining the borrowing maturity is to ensure a balance between flexibility, cost and the continuing availability of funds.

*Long term borrowings*

|                             | As at March 31,<br>2018 |          |                                | 2017                   |          |                          |
|-----------------------------|-------------------------|----------|--------------------------------|------------------------|----------|--------------------------|
|                             | Outstanding<br>balance  | Currency | Interest Rate                  | Outstanding<br>balance | Currency | Interest Rate            |
| Foreign currency borrowings | Rs.21,065               | USD      | 1 Month LIBOR + 45 to 82.7 bps | Rs.4,852               | USD      | 1 Month LIBOR + 82.7 bps |
|                             | 3,394                   | EUR      | 0.81%                          | -                      | -        | -                        |

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. However, transfers of funds from Venezuela are subject to certain exchange control regulations. Refer to Note 38 of our consolidated financial statements for further details. Consistent with our risk management policy, we use interest rate swaps to mitigate the risk of changes in interest rates.

Cash and cash equivalents are primarily held in Indian rupees, U.S. dollars, U.K. pounds sterling, Euros, Kazakhstan tenges, Brazilian reals and Swiss francs.

As of March 31, 2018 and 2017, we had committed to spend Rs.3,788 million and Rs.5,256 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 as well as cash flows from our long term borrowings.

*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:

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*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 highly regulated markets of the United States and Europe as well as emerging markets. Global Generics also includes 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 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 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 focus on the research, development, and manufacture of differentiated formulations. These novel products fall within the dermatology and neurology therapeutic areas.

In the years ended March 31, 2018, 2017 and 2016, we expended Rs.18,265 million, Rs.19,551 million and Rs.17,834 million, respectively, on research and development activities. The increase in research and development expenditure was in line with our strategy to expand our research and development efforts in complex formulations, differentiated formulations and biosimilar compounds.

## **Patents, Trademarks and Licenses**

We have filed and been issued numerous patents in our principal areas of operations: Global Generics, 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, 2018, we have approximately 1,560 trademarks filed with the Registrar of Trademarks in India which are either registered or are pending registration. 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**

Please see “Item 5: Operating and Financial Review and Prospects” and “Item 4. Information on the Company” for trend information.

**5.E. Off-balance sheet arrangements**

None.

**5.F. Tabular Disclosure of Contractual Obligations**

The following summarizes our contractual obligations as of March 31, 2018 and the effect such obligations are expected to have on our liquidity and cash flows in future periods.

| Contractual Obligations   | Payments due by period<br>(Rs. in millions) |                     |            |            |                      |
|---|---|---------------------|------------|------------|----------------------|
|   | Total                                       | Less than 1<br>year | 1-3 years  | 3-5 years  | More than 5<br>years |
| Operating lease obligations                                       | Rs. 1,929                                   | Rs. 496             | Rs. 780    | Rs. 364    | Rs. 289              |
| Capital lease obligations (including interest)                    | 975   | 120                 | 212        | 204        | 439                  |
| Property, plant and equipment purchase obligations <sup>(1)</sup> | 3,788                                       | 3,788               | -          | -          | -                    |
| Short-term debt obligations                                       | 25,466                                      | 25,466              | -          | -          | -                    |
| Long-term debt obligations (excluding capital lease)<br>(2)       | 24,576                                      | -                   | 10,410     | 14,166     | -                    |
| Estimated interest payable on long-term debt <sup>(3)</sup>       | 395   | 168                 | 219        | 8          | -                    |
| Post-retirement benefits obligations <sup>(4)</sup>               | 2,406                                       | 261                 | 462        | 456        | 1,227                |
| Total contractual obligations                                     | Rs. 59,535                                  | Rs. 30,299          | Rs. 12,083 | Rs. 15,198 | Rs. 1,955            |

<sup>(1)</sup> Amounts presented are net of capital advances paid in respect of such purchases and are expected to be funded from internally generated funds.

<sup>(2)</sup> Long-term debt obligations disclosed in the above table do not reflect any netting of transaction costs of Rs.117.

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 (3)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, 2018 applicable benchmark rates and are subject to fluctuation in the future.

(4)Post-retirement benefits obligations in the “More than 5 years” column are estimated for a maximum of 10 years.

We have committed to make potential future milestone and royalty payments to third parties under various agreements. Such payments are contingent upon the achievement of certain regulatory milestones and sales targets. Due to the uncertainty of the timing of these payments, they are not included in the above table.

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

See page 3 under heading “Forward-Looking and Cautionary Statement”.

**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, 2018 was as follows:

| <b>Directors Name<sup>(1)</sup></b>   | <b>Age (in yrs.)</b> | <b>Position</b>  |
|---------------------------------------|----------------------|--|
| Mr. K. Satish Reddy <sup>(2)(3)</sup> | 51                   | Chairman   |
| Mr. G.V. Prasad <sup>(2)(4)</sup>     | 58                   | Co-Chairman, Managing Director and Chief Executive Officer |
| Mr. Anupam Puri                       | 72                   | Director   |
| Ms. Kalpana Morparia                  | 69                   | Director   |
| Dr. Omkar Goswami                     | 61                   | Director   |
| Dr. Bruce L.A. Carter                 | 74                   | Director   |
| Mr. Sridar Iyengar                    | 70                   | Director   |
| Mr. Bharat Narotam Doshi              | 69                   | Director   |
| Mr. Hans Peter Hasler <sup>(5)</sup>  | 62                   | Director   |
| Mr. Prasad R. Menon                   | 72                   | Director   |

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

<sup>(2)</sup> Full-time director.

<sup>(3)</sup> Brother-in-law of Mr. G.V. Prasad.

<sup>(4)</sup> Brother-in-law of Mr. K. Satish Reddy.

<sup>(5)</sup> Resigned effective as of June 14, 2018.

**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, 2018, the Management Council consisted of:

| <b>Name and Designation</b> | <b>Education/Degrees Held</b> | <b>Age</b> | <b>Experience in years</b> | <b>Date of commencement of</b> | <b>Particulars of last employment</b> |
|-----------------------------|-------------------------------|------------|----------------------------|--------------------------------|---------------------------------------|
|-----------------------------|-------------------------------|------------|----------------------------|--------------------------------|---------------------------------------|

**employment**

|  |   |    |    |                  |   |
|--|---|----|----|------------------|---|
| Mr. K. Satish Reddy <sup>(1)</sup>   |   |    |    |                  |   |
| Chairman   | B. Tech., M.S.<br>(Medicinal Chemistry)               | 51 | 26 | January 18, 1993 | Director, Globe Organics Limited  |
| Mr. G.V. Prasad <sup>(2)</sup>   |   |    |    |                  |   |
| Co-Chairman, Managing Director and Chief Executive Officer                         | B. E. (Chem. Eng.),<br>M.S. (Incl. Admn.)             | 58 | 34 | June 30, 1990    | Promoter Director, Benzex Labs Private Limited  |
| Mr. Abhijit Mukherjee <sup>(3)</sup>   |   |    |    |                  |   |
| Chief Operating Officer  | B. Tech. (Chem.)                                      | 60 | 38 | January 15, 2003 | President, Atul Limited   |
| Mr. Alok Sonig   |   |    |    |                  |   |
| Executive Vice President and Head - North America Generics                         | B.E., MBA   | 46 | 23 | June 11, 2012    | Vice President and Head of Global Commercial Excellence, Strategy and Business Model Innovation, Bristol Myers Squibb |
| Dr. Amit Biswas  |   |    |    |                  |   |
| Executive Vice President and Head - Integrated Product Development Organization    | B. Tech. (Chem.),<br>Masters (Polymer Science), Ph.D. | 58 | 30 | July 12, 2011    | Senior Vice President,<br>Reliance Industries Limited   |
| Dr. Cartikeya Reddy  |   |    |    |                  |   |
| Executive Vice President and Head-Biologics  | B. Tech, M.S., Ph.D.                                  | 48 | 27 | July 20, 2004    | Senior Engineer, Genetech Inc.  |
| Dr. K.V.S. Ram Rao   |   |    |    |                  |   |
| Sr. Vice President and Head-PSAI Commercial Organization                           | B.Tech., M.E.,<br>Ph. D.(Chem Eng)                    | 55 | 25 | April 3, 2000    | Head of Technical Services,<br>Jubilant Life Sciences   |
| Mr. M.V. Ramana  | MBA   | 50 | 26 | October 15, 1992 | -   |
| Executive Vice President and Head - Branded Markets (India and Emerging Countries) |   |    |    |                  |   |





| <b>Name and Designation</b>   | <b>Education/Degrees Held</b>   | <b>Age</b> | <b>Experience in years</b> | <b>Date of commencement of employment</b> | <b>Particulars of last employment</b>                                   |
|---|---|------------|----------------------------|---|---|
| Mr. Saumen Chakraborty<br><br>President and Chief Financial Officer and Global Head of Information Technology and Business Process Excellence | B.Sc. (H), MBA (IIM)  | 57         | 34                         | July 2, 2001                              | Vice President, Tecumseh Products India Private Limited                 |
| Mr. Ganadhish Kamat<br><br>Executive Vice President and Head - Global Quality Organization  | Master of Pharmacy and Diploma in Business Management                               | 55         | 33                         | April 18, 2016                            | Executive Vice President – Corporate Quality, Lupin Limited             |
| Mr. Anil Namboodiripad<br><br>Senior Vice President and Head - Proprietary Products   | Ph.D. Physiology and Molecular Biophysics   | 51         | 20                         | September 9, 2007                         | Abbott Laboratories, Bristol-Myers Squibb, Booz and Co                  |
| Ms. Archana Bhaskar<br><br>Executive Vice President and Chief Human Resource Officer  | B.Sc. (H), MBA (IIM)  | 51         | 26                         | June 15, 2017                             | Human Resources head (Global commercial business) Royal Dutch Shell     |
| Mr. Sanjay Sharma<br><br>Executive Vice President and Head – Global Manufacturing Operations  | B. Tech (IIT), Business Leader’s program (IIM) and General Management program (IIM) | 50         | 26                         | August 1, 2017                            | Integrated Supply Chain Operations (Coca Cola) for India and South Asia |

(1) Brother-in-law of Mr. G.V. Prasad.

(2) Brother-in-law of Mr. K. Satish Reddy.

(3) Retired on March 31, 2018.

In April 2018, Mr. Erez Israeli joined our company as our Chief Operating Officer and the Global Head of Generics and PSAI businesses. He is also a member of our Management Council. He graduated from Bar Ilan University in Israel, majoring in art, economics and business administration, and received a MBA in Finance and Marketing from Bar Ilan University. He has over 25 years of experience in the pharmaceutical industry. Prior to joining us, Mr. Israeli was President and Chief Executive Officer of Enzymotec. Prior to that, he spent 23 years working at Teva Pharmaceutical Industries Limited (“Teva”), where he held several leadership positions in the API and pharmaceutical (Generics, Speciality and OTC) businesses. He was also the Head of the Global Quality function for Teva, and has held Board positions at subsidiaries of Teva.

Mr. Sauri Gudlavalleti, Senior Vice President and Head of Global Portfolio Integration and Delivery, has become the head of Integrated Product Development Organization and joined the Management Council effective as of April 1, 2018. Dr. Amit Biswas, Executive Vice President and head of Integrated Product Development Organization, will retire in June 2018 and will mentor the team in this transition.

Mr. P. Yugandhar, Senior Vice President and Head of Global Supply Chain Management, joined the Management Council effective as of April 1, 2018.

Mr. Raymond de Vre, Senior Vice President and Head of Biologics Business Operations and Strategy, has taken over as Head of Biologics and has joined the Management Council, effective as of June 1, 2018. Dr. Cartikeya Reddy has decided to move from the Company and will work with Raymond and the Biologics Leadership Team through an extended transition phase until September 30, 2018.

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 our Management Council.

## Biographies – Directors

*Mr. K. Satish Reddy* is a member of our Board of Directors and serves as our Chairman of the Board. Prior to May 2014, he held the titles of Vice Chairman and Managing Director. 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 was a member of the Drugs Technical Advisory Board of India, the Chairman of the Andhra Pradesh Chapter of the Confederation of Indian Industries (“CII”) and head of its National Committee on Pharmaceuticals. He was the President of the Indian Pharmaceutical Alliance, a premier industry association of leading research-based Indian companies. He also chairs the Life Sciences Skill Development Council under The National Skill Development Corporation (“NSDC”), an organization, working in partnership with various stakeholders groups, to serve and address the skill shortfalls in the Life Sciences Sectors across India. In May 2015, the Ministry of Labour and Employment, Government of India, nominated Mr. Reddy as Chairman of the Board of Governors of the National Safety Council. In addition to positions held in our subsidiaries and joint ventures, he is also a Director of Green Park Hotels and Resorts Limited, Dr. Reddy’s Holdings Limited, Stamlo Industries Limited, Ruthenika Technologies Limited, Araku Originals Private Limited, Dr. Reddy’s Research Foundation, Dr. Reddy’s Institute of Life Sciences, Cipro Estates Private Limited, KAR Therapeutics & Estates Private Limited, Quin Estates Private Limited, Satish Reddy Estates Private Limited, Molecular Connections Private Limited, Dr. Reddy’s Trust Services Private Limited, KAR Holdings (Singapore) Private Limited, Singapore, KAREUS Therapeutics (Singapore) Private Limited, Singapore and KAREUS Therapeutics, SA, Switzerland.

*Mr. G.V. Prasad* is a member of our Board of Directors and serves as our Co-Chairman, Managing Director and Chief Executive Officer. Prior to May 2014, he held the titles of Chairman and Chief Executive Officer. He was the Managing Director of Cheminor Drugs Limited prior to its merger with us. He has a Bachelor of Engineering 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. Mr. Prasad was recognized as “India’s Best CEO” in the Large Company category by Business Today in 2014, and as “India Business Leader of the Year” by CNBC Asia in 2015. He was also listed in the prestigious ‘Medicine Maker 2018 Power List’ of most inspirational professionals shaping the future of drug development, and one of ‘India’s Greatest 50 CEOs Ever’ by Outlook. In addition to positions held in our subsidiaries and joint ventures, he is a Director of Green Park Hotels and Resorts Limited, Dr. Reddy’s Holdings Limited, Stamlo Industries Limited, Ruthenika Technologies Limited, Dr. Reddy’s Institute of Life Sciences, Dr. Reddy’s Research Foundation, International Foundation for Research and Education, Molecular Connections Private Limited, Dr. Reddy’s Trust Services Private Limited, Indian School of Business and Andhra Pradesh State Skill Development Corporation.

*Mr. Anupam Puri* has been a member of our Board of Directors since 2002. He was associated with McKinsey and Company before joining us. He was a Director and played a variety of other leadership roles during his 30-year career there. Before joining McKinsey and 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 and Mahindra Limited, Tech Mahindra Limited and our wholly owned subsidiary Dr. Reddy’s Laboratories Inc. in the United States of America.

*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 CG Power and Industrial Solutions Limited, Ambuja Cements Limited, Godrej Consumer Products Limited, Bajaj Finance Limited, Max Healthcare Institute Limited, Hindustan Construction Company Limited, Bajaj Auto Limited and DSP Black Rock Investment Managers Private Limited.

*Ms. Kalpana Morparia* has been a member of our Board of Directors since 2007. Ms. Morparia is Chief Executive Officer of J.P. Morgan, South and Southeast Asia. Ms. Morparia is a member of J.P. Morgan's Asia Pacific Management Committee. Prior to becoming Chief Executive Officer of J.P. Morgan, South and Southeast Asia, Ms. Morparia served as Chief Executive Officer of J.P. Morgan India and 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 had 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 Hindustan Unilever Limited, J.P. Morgan Services India Private Limited, and Philip Morris International Inc. in the United States of America. She also serves as a member on the Board of Governors of Bharti Foundation.

*Dr. Bruce L.A. Carter* has been a member of our Board of Directors since 2008. Dr. Carter was 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 and 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 TB Alliance, Mirati Therapeutics Inc, Accelerator Corporation and Enanta Pharmaceutical Inc. in the United States of America and our wholly-owned subsidiary Aurigene Discovery Technologies Limited.

*Mr. Sridar Iyengar* has been a member of our Board of Directors since 2011. Mr. Sridar Iyengar is an independent mentor investor in early stage start-up companies. For more than 35 years, he has worked in the United Kingdom, the United States and India with a large number of companies, advising them on strategy and other issues. Mr. Iyengar is the former President of Foundation for Democratic Reforms in India, a U.S. based non-profit organization. He is also an advisor to several venture and private equity funds in India. Earlier, he was a senior partner with KPMG in the United States and the United Kingdom and served for 3 years as the Chairman and CEO of KPMG's operations in India. Mr. Iyengar holds a Bachelor of Commerce (Hons.) degree from Calcutta University and he is a Fellow of the Institute of Chartered Accountants in England and Wales. Mr. Iyengar is also on the Board of Directors of Mahindra Holidays and Resorts India Limited, CL Educate Limited, ICICI Venture Funds Management Company Limited, Cleartrip Private Limited, CL Media Private Limited, AverQ Inc., in the United States of America, Cleartrip Inc. in the Cayman Islands, Holiday Club Resorts OY, Finland and our wholly owned subsidiary Dr. Reddy's Laboratories S.A. in Switzerland.

*Mr. Bharat N. Doshi* has been a member of our Board of Directors since 2016. Mr. Doshi is a former Executive Director and Group Chief Financial Officer of Mahindra & Mahindra Limited. He was also the Chairman of Mahindra & Mahindra Financial Services Limited since April 2008, and he stepped down from this position on his nomination as Director on the Central Board of Directors of the Reserve Bank of India in March 2016. He is the Chairman of Mahindra Intertrade Limited, Director on the Board of Mahindra Holdings Limited and member of Board of Governors of The Mahindra United World College of India. He is a director on the Boards of Mahindra Foundation (USA) and Mahindra Foundation (UK). He is also an Independent Director of Godrej Consumer Products Limited. He also serves on Advisory Board of Excellence Enablers, an organization committed to promoting corporate governance in India. Mr. Doshi is a fellow Member of the Institute of Chartered Accountants of India and the Institute of Company Secretaries of India and holds Master's degree in Law from Bombay University. He is an alumnus of Harvard Business School (Program for Management Development) and Fellow of the Salzburg Seminar on 'Asian Economies: Regional and Global Relationships'.

*Mr. Hans Peter Hasler* has been a member of our Board of Directors since 2016. Mr. Hasler is the Principal of HPH Management GmbH, Küssnacht, Switzerland, the Chairman of HBH Healthcare Investments AG in Zug since June 2009 and Founder of Vicarius Pharma Limited AG, in Switzerland. He is also the Chairman of the Board of Medical Imaging Analysis Center (MIAC) of the University Hospital, Basel, a non-profit organization, since December 2012 and a Director on the Board of Minerva Neuro Sciences. Mr. Hasler holds a Federal Swiss Commercial Diploma from Canton of Bern, Switzerland (Kaufmann) and a Diploma in Business Management from Swiss Institute of Business, Zurich. Mr. Hasler is an experienced pharmaceutical and biotechnology executive and has an international track record and in-depth operational, commercial and general management expertise. He also acts as a top-level advisor to the life-science industry. In his career, he has managed the growth of leading companies in the pharmaceutical industry and successfully launched several blockbuster drugs. He is also on the Board of Directors of our wholly owned subsidiary, Dr. Reddy's Laboratories S.A. in Switzerland. He resigned effective as of June 14, 2018.

*Mr. Prasad R. Menon* has been a member of our Board of Directors since 2017. Mr. Menon is a former Managing Director of Tata Chemicals Limited and Tata Power Company Limited. He has over 40 years of experience in some of the premier multinational and Indian companies in the chemical and power industry. Prior to joining Tata, he was Director Technical of Nagarjuna Fertilisers and Chemicals Limited. Mr. Menon also holds directorship in Axis Bank Ltd., SKF India Ltd. and Tata Foundation in India, as well as the Singapore Tourism Board and Sanmar Group Advisory Board. He holds a chemical engineering degree from the Indian Institute of Technology (IIT), Kharagpur.

### **Biographies - Executive Officers**

*Mr. Abhijit Mukherjee* was the Chief Operating Officer of our company until he retired on March 31, 2018. 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. Alok Sonig* is the Executive Vice President and head of North America Generics. Effective April, 2018, he is the CEO of our Developed Markets (North America Generics, Europe Generics and Japan). He joined us in June 2012 and has over 23 years of experience in healthcare, technology and consumer marketing. Prior to joining us, he worked with Bristol Myers Squibb in Princeton, New Jersey, U.S.A., as Vice President and Head of Global Commercial Excellence, Strategy and Business Model Innovation. Mr. Sonig holds a Bachelor's of Engineering from Punjab Engineering College in India and an MBA from American University, Washington, D.C.

*Dr. Amit Biswas* is the Executive Vice President and Head of Integrated Product Development (“IPDO”). He joined us in July 2011 and has 30 years of diverse and rich international experience, spanning academic and industrial research, product development, technical service and management of research and technology in the areas of commodity plastics, engineering polymers, high performance fibers, industrial/automotive coatings and alternate energy technologies. He previously worked with companies such as DuPont (USA), ICI India and GE Advanced Materials. Prior to joining us, he worked with Reliance Industries Limited as Senior Vice President, Technology Services and Emerging Technologies-Reliance Technology Group and was responsible for design and implementation of Research and Technology Management processes, Business Transformation and Change Management, and interfacing with private/public institutions on Alternate Energy Technologies. He is a Master Black Belt in Six Sigma (GE Certification). He was also a member of various councils, including National Chemical Laboratory (Pune) Research Council, Indian Institute of Chemical Technology (Hyderabad) Research Council, Indian Institute of Technology Bombay Advisory Council and currently is a member of All India CII Technology Council. He was made an Adjunct Professor at the Centre for Research in Nano-technology and Science at the Indian Institute of Technology in Bombay, India. He has 44 international publications, 3 book chapters and 4 patents. He holds a Ph.D. and Masters in Polymer Science from Case Western Reserve University, Ohio, U.S.A. and a Bachelor of Technology in Chemical Engineering from the Indian Institute of Technology, Bombay, India.

*Dr. Cartikeya Reddy* is the Executive Vice President and head of our Biologics division, which focuses on the development of biosimilar molecules for the Indian and global markets. Prior to joining us in 2004, Dr. 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.

*Dr. K.V.S. Ram Rao* is the Senior Vice President and Head of PSAI Commercial Organization. He joined us in 2000 and has over 25 years of experience in New Product Development-API and Global Oncology. In his current role, he is responsible for our PSAI commercial organization managing sales, strategy, business development and new product management. Prior to joining us, Dr. Ram Rao worked at Jubilant Life Sciences where he headed the Technical Services Division and Gujarat Heavy Chemicals Limited where he was the Head of Research and Development. He holds a Ph.D. and a Masters degree in Chemical Engineering from the Indian Institute of Science (“IISc”), Bangalore along with a Bachelors Degree in Chemical Engineering from Osmania University, Hyderabad, India. He also holds a



Diploma in Project Management from Narsee Monjee Institute of Management Studies (“NMIMS”), India.

*Mr. M.V. Ramana* is the Executive Vice President and Head of Branded Markets (India and Emerging countries). Effective April, 2018, he is the CEO of our Branded Markets (India and Emerging Markets). He joined us on October 15, 1992 as a Management Trainee in the International Marketing division of our Branded Formulations business. In his 26 year tenure, he has handled various critical assignments including setting up the businesses in several countries across Asia, Latin America, Africa and the Middle East. Mr. Ramana is also a frequent speaker at various international forums in the pharmaceutical and generics industry. He holds a MBA degree from Osmania University, Hyderabad, India and has completed the ISB-Kellogg management development program.

*Mr. Saumen Chakraborty* is the President and Chief Financial Officer. In this role, he is responsible for managing our global finance functions including, among others, Accounts and Controlling, Taxation, Compliance, Secretarial, Investor Relations and Treasury. In addition, Mr. Chakraborty is also responsible for our Information Technology (“IT”) and Business Process Excellence (“BPE”) functions. As the Chief Financial Officer, Mr. Chakraborty was recognized as the Best CFO for Healthy Balance Sheet management India’s Best CFO with Exemplary at BW Businessworld-YES Bank Best CFO Awards 2015-16, CFO of the year by International Market Assessment (“IMA”), All Round Performance in the 5th Annual Business Today in 2014 – Yes Bank Best CFO Awards event. 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. In 2010 he was appointed as President and Global Head of Quality, Human Resources and Information Technology and focused on the integration of people practices, processes and information across the organization. He has 34 years of experience in strategic and operational aspects of management. Prior to joining us, he held various line management, human resources and other positions, including Senior Manager (Finance and Accounts) in the Eicher Group and Vice President (Operations) in Tecumseh Products Company. Saumen is also a member of the National Leadership Committee of CII. He is on the Board of ABP Private Limited and has been on the Board of the AHRD and various joint ventures/subsidiaries of our Company. He graduated with honors as the valedictorian of his class from Visva-Bharati University in Physics and holds degree in Management from the Indian Institute of Management, Ahmedabad, Gujarat, India.

*Mr. Ganadhish Kamat* is the Executive Vice President and Global Head of Quality. He has joined us in April 2016 and in this role he is responsible for Global Quality. He holds a Master of Pharmacy degree from Mumbai University and a Diploma in Business Management from Goa University. He has close to 33 years of rich experience in the pharmaceutical industry. During his long career, Mr. Kamat has worked in leadership roles in different organizations such as Sandoz, Intas Pharma and Ranbaxy. Prior to joining us, Mr. Kamat was with Lupin as Executive Vice President – Corporate Quality. He is a member of the International Society for Pharmaceutical Engineering (ISPE), the expert committee of Indian Pharmacopoeia, and the Quality Forum of the Indian Pharmaceutical Association (IPA).

*Mr. Anil Namboodiripad* is the Senior Vice President and Head-Proprietary Products. He joined us in 2007 and in this role he is responsible for our Proprietary Products business. He has been one of the main architects of our Proprietary Products business since July 2008, when systematic efforts towards differentiated formulations were first undertaken. In earlier roles, he was responsible for leading external research and development and strategic marketing which included establishing research collaborations and “mini incubators” with various external industry partners and academic bodies. Over the years, his role has grown considerably with the inclusion of Proprietary Products drug development, regulatory affairs and the dermatology commercial effort under his leadership. Prior to joining us, he spent a number of years at Abbott Laboratories’s subsidiary AbbVie and at Bristol-Myers Squibb in various roles of increasing responsibility including strategic planning, corporate development and global commercial operations. He started his career as a management consultant with Booz & Co. in New York (formerly Booz Allen Hamilton), where he served clients on several high level business critical issues within financial services and healthcare. He holds a Ph.D. in Physiology and Molecular Biophysics from the University of Texas.

*Ms. Archana Bhaskar* is the Executive Vice President and Chief Human Resources Officer (“CHRO”). She joined us in June 2017. She graduated from Lady Shiram College, Delhi University, majoring in Psychology and Mathematics and

holds a degree in Management from the Indian Institute of Management, Bengaluru. She has over 26 years of experience across various industries, geographies and companies. She was last employed with Royal Dutch Shell, Singapore where she headed Human Resources for the Global Commercial businesses.

*Mr. Sanjay Sharma* is the Executive Vice President and Head of Global Manufacturing Operations. He joined us in August 2017. He graduated from the Indian Institute of Technology (IIT) Delhi with a degree in Chemical Engineering, completed a one year Business Leader's program from the Indian Institute of Management (IIM) Calcutta and a General Management program from IIM Ahmedabad. He has over 26 years of experience across various industries like Coca Cola and United Breweries. He joined us from Coca Cola where he led their Integrated Supply Chain Operations for India and South Asia. His experience includes running one of the largest sales profit centers for Coca Cola and heading National Technical Operations for United Breweries in South Africa.

## 6.B. Compensation

### Directors' compensation

*Full-Time Directors:* The compensation of our Chairman of the Board and our Co-Chairman, Managing Director and Chief Executive 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 plans. The Nomination, Governance and 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 along with the proposal for their appointment or re-appointment.

Our Chairman of the Board and our Co-Chairman, Managing Director 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, 2013) for the fiscal year. The Nomination, Governance and Compensation Committee, which is entirely composed of independent directors, recommends the commission for our Chairman of the Board and our Co-Chairman, Managing Director and Chief Executive Officer within the limits of 0.75% and 0.75%, respectively, of our net profits (as defined under the Indian Companies Act, 2013) for each fiscal year.

*Non-Full Time Directors:* In the year ended March 31, 2018, none of our non-full time directors were paid any sum as attendance fees. Non-full time directors are eligible to receive a commission on our net profit (as defined under the Indian Companies Act) for each fiscal year. Our shareholders have approved a maximum commission of up to 1% of the net profits (as defined under the Indian Companies Act, 2013) 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 not granted stock options under the Dr. Reddy's Employees Stock Option Scheme, 2002 or Dr. Reddy's Employees ADR Stock Option Scheme, 2007 in the year ended March 31, 2018.

For the year ended March 31, 2018, the directors were entitled to the following amounts as compensation:

| Name of Directors    | (Amounts Rs. in millions) |          |             |          |
|----------------------|---------------------------|----------|-------------|----------|
|                      | Commission                | Salary   | Perquisites | Total    |
| Mr. K. Satish Reddy  | Rs.42.00                  | Rs.12.17 | Rs. 3.30    | Rs.57.47 |
| Mr. G.V. Prasad      | 50.00                     | 18.52    | 8.96        | 77.48    |
| Dr. Omkar Goswami    | 6.97                      | -        | -           | 6.97     |
| Mr. Anupam Puri      | 8.89                      | -        | -           | 8.89     |
| Ms. Kalpana Morparia | 7.29                      | -        | -           | 7.29     |

|                       |      |   |   |      |
|-----------------------|------|---|---|------|
| Dr. Bruce L.A. Carter | 7.68 | - | - | 7.68 |
| Dr. Ashok S. Ganguly* | 2.99 | - | - | 2.99 |
| Mr. Sridar Iyengar    | 8.01 | - | - | 8.01 |
| Mr. Bharat N. Doshi   | 8.60 | - | - | 8.60 |
| Mr. Hans Peter Hasler | 6.93 | - | - | 6.93 |
| Mr. Prasad R. Menon** | 3.32 | - | - | 3.32 |

\* Compensation for part of the year, term ended on July 28, 2017.

\*\* Compensation for part of the year, appointed effective as of October 30, 2017.

### **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 Nomination, Governance and 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 the individual based on performance of such individual, their business unit/function and our company as a whole, 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 including directors and employees and directors of our subsidiaries. The stock option schemes are not applicable to promoter directors, promoter employees, non-full time directors (independent directors) and persons holding 2% or more of our outstanding share capital. The Nomination, Governance and Compensation Committee of the Board of Directors awards options pursuant to the stock option schemes based on the employee's performance appraisal. Some employees have also been granted options upon joining us.

Compensation for executive officers who are full time directors is summarized in the table under “Directors’ compensation” above. The following table presents the annual compensation paid or payable to other executive officers for services rendered to us for the year ended March 31, 2018 and stock options issued to all of our other executive officers during the year ended March 31, 2018:

### Compensation for Executive Officers

| Name  | Compensation <sup>(1) (2) (3)</sup><br>(Rs. in millions) | No. of<br>Options <sup>(4)</sup> |
|---|--|----------------------------------|
| Mr. Abhijit Mukherjee                               | 74.2   | 6,000                            |
| Mr. Alok Sonig                                      | 45.8   | 4,500                            |
| Dr. Cartikeya Reddy                                 | 32.6   | 4,200                            |
| Mr. Saumen Chakraborty                              | 55.0   | 6,000                            |
| Mr. M.V. Ramana                                     | 40.6   | 5,000                            |
| Mr. Samiran Das (until January 31, 2018)            | 18.0   | 2,500                            |
| Dr. Amit Biswas                                     | 30.4   | 3,600                            |
| Dr. K.V.S. Ram Rao                                  | 27.2   | 3,200                            |
| Dr. S. Chandrasekhar (until July 31, 2017)          | 7.6  | 2,000                            |
| Ms. Archana Bhaskar (effective as of June 15, 2017) | 26.8   | 6,400                            |
| Mr. Ganadhish Kamat                                 | 30.8   | 3,500                            |
| Mr. J. Ramachandran (until October 31, 2017)        | 11.0   | 1,500                            |
| Mr. Anil Namboodiripad                              | 33.2   | 4,000                            |
| Mr. Sanjay Sharma (effective as of August 1, 2017)  | 20.2   | —                                |

<sup>(1)</sup> These compensation amounts do not include share based payment expense arising from stock options. However, the number of options granted during the year are mentioned separately in the above table.

<sup>(2)</sup> These compensation amounts include variable pay accrued for the year. The actuals could differ based on the completion of performance evaluation and differences are adjusted at the time of payouts.

These compensation amounts include superannuation benefits and provident fund benefits. The executive officers are also covered under our Gratuity and Compensated Absences Plans along with the other employees.

<sup>(3)</sup> Proportionate amounts of the cost for gratuity and compensated absences accrued under the plans have not been separately computed or included in the above disclosure, as the amount payable to the officer is inherently variable and our annual contributions to funds established to furnish such payments are lump sums based on actuarial projections for the fund as a whole. Refer to Note 18 of our consolidated financial statements for further details on the foregoing benefits.

<sup>(4)</sup>

The options vest 25% each year on various dates beginning in the year ended March 31, 2019 and ending in the year ended March 31, 2022 subject to the employee being in continued service on the date of vesting. The options expire after five years from the date of vesting. Each of the options has an exercise price of Rs.5 and results in the issuance of one equity share upon its exercise.

### **6.C. Board practices**

Our Articles of Association require us to have a minimum of three and a maximum of fifteen directors. As of March 31, 2018, we had ten directors on our Board, of which eight were non-full time independent directors.

The Companies Act, 2013 and our Articles of Association require that at least two-thirds of our directors be subject to re-election by our shareholders in rotation and that, at every annual general meeting, one-third of the directors who are subject to re-election must retire from the Board. However, if eligible for re-election, they may be re-elected by our shareholders at the annual general meeting.

Due to India's adoption of the Companies Act, 2013, effective as of April 1, 2014, non-full time independent directors are no longer required to retire from the Board by rotation. As a result, at annual general meetings held after April 1, 2014, our non-full time independent directors are excluded from the calculation of the two-thirds directors who are subject to re-election by our shareholders in rotation.

The Ministry of Corporate Affairs, Government of India, by a circular dated June 9, 2014, stated that all non-full time independent directors (including existing non-full time independent directors) are required to be appointed expressly under the provisions of the Companies Act, 2013 before March 31, 2015. Accordingly, all of our then non-full time independent directors were re-appointed by our shareholders at the July, 2014 annual general meeting.

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

| <b>Name</b>                              | <b>Expiration of Current Term of Office</b> | <b>Term of Office</b> | <b>Period of Service</b> |
|--|---|-----------------------|--------------------------|
| Mr. G.V. Prasad <sup>(1)</sup>           | January 29, 2021                            | 5 years               | 32 years                 |
| Mr. K. Satish Reddy <sup>(1)</sup>       | September 30, 2022                          | 5 years               | 25 years                 |
| Mr. Anupam Puri <sup>(2) (3)</sup>       | July 31, 2018                               | 4 years               | 16 years                 |
| Ms. Kalpana Morparia <sup>(2) (3)</sup>  | July 31, 2019                               | 5 years               | 11 years                 |
| Dr. Omkar Goswami <sup>(2) (3)</sup>     | July 31, 2019                               | 5 years               | 17.5 years               |
| Dr. Bruce L.A. Carter <sup>(2) (3)</sup> | July 31, 2019                               | 5 years               | 10 years                 |
| Mr. Sridar Iyengar <sup>(2) (3)</sup>    | July 31, 2019                               | 5 years               | 7 years                  |
| Mr. Bharat N. Doshi <sup>(2)</sup>       | May 10, 2021                                | 5 years               | 2 years                  |
| Mr. Hans Peter Hasler <sup>(2) (4)</sup> | June 14, 2018                               | 5 years               | 2 years                  |
| Mr. Prasad R. Menon <sup>(2)</sup>       | October 29, 2022                            | 5 years               | 0.5 year                 |

(1) Full time director.

(2) Non-full time independent director.

These non-full time independent directors were appointed at our annual general meeting on July 31, 2014, under the provisions of the Companies Act, 2013 for a term stated in the above table. This appointment of our non-full time independent directors was to comply with the circular dated June 9, 2014 issued by the Ministry of Corporate Affairs, Government of India requiring us to appoint all of our non-full time independent directors specifically under the provisions of the Companies Act, 2013.

(4) Resigned effective as of June 14, 2018.

As a result of the above, a proposal to vary the terms of appointment so that only our full time directors are subject to retirement by rotation was approved by our shareholders at the July 2014 annual general meeting. Accordingly, our full time directors are now subject to retirement by rotation. The directors are not eligible for any termination benefit on the termination of their tenure with us. As a result of the above, Mr. K. Satish Reddy shall retire by rotation and the proposal to reappoint him is being placed before our shareholders at our July 2018 annual general meeting.

## **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



seven Board-level Committees as of March 31, 2018:

- Audit Committee.
  
- Nomination, Governance and Compensation Committee.
  
- Science, Technology and Operations Committee.
  
- Risk Management Committee.
  
- Stakeholders' Relationship Committee.
  
- Banking and Authorization Committee (formerly known as the Management Committee).
  
- Corporate Social Responsibility Committee.

We have adopted charters for our Audit Committee, Nomination, Governance and Compensation Committee, Science, Technology and Operations Committee, Risk Management Committee, Stakeholders' Relationship Committee and Corporate Social Responsibility Committee, formalizing the applicable committee's procedures and duties. Each of these charters is available on our website at <http://www.drreddys.com/investors/governance/committees-of-the-board/>

***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 as of March 31, 2018:

•Mr. Sridar Iyengar (Chairman);

•Dr. Omkar Goswami; and

•Mr. Bharat Narotam Doshi.

Our Company Secretary is the Secretary of the Audit Committee. This Committee met six times during the year ended March 31, 2018. Our independent registered public accounting firm was generally present at all Audit Committee meetings during the year.

The primary responsibilities of the Audit Committee are to:

•Supervise our financial reporting process;

•Review our quarterly and annual financial results, along with related public disclosures and filings, before providing 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 external auditors on the nature, scope and process of audits and any views that they have about our financial control and reporting processes;

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

- Recommend the appointment and removal of external auditors and their remuneration;

- Recommend the appointment of cost auditors;
- Review the independence of auditors;
- Ensure that adequate safeguards have been taken for legal compliance both for us and for our subsidiaries;
- Review the financial statements of our subsidiary companies, in particular investments made by them;
- Review and approve related party transactions;
- Review the functioning of whistle blower mechanism;
- Review the implementation of applicable provisions of the Sarbanes-Oxley Act, 2002;
- Scrutinize our inter-company loans and investments;
- Value our undertakings and assets, wherever it is necessary;
- Evaluate internal financial controls; and
- Review any findings of investigations related to suspected fraud committed against us.

***Nomination, Governance and Compensation Committee.***

The primary functions of the Nomination, Governance and Compensation Committee are to:

- Examine the structure, composition and functioning of the Board, and recommend changes, as necessary, to improve the Board's effectiveness;
- Formulate policies on remuneration of Directors, key managerial personnel and other employees, and on Board diversity;
- Formulate criteria for evaluation of Independent Directors and the Board;

Assess our policies and processes in key areas of corporate governance, other than those explicitly assigned to other Board Committees, with a view to ensuring that we are at the forefront of good governance practices; and

Regularly examine ways to strengthen our organizational health, by improving the hiring, retention, motivation, development, deployment and behavior of management and other employees. In this context, the Committee also reviews the framework and processes for motivating and rewarding performance at all levels of the organization, reviews the resulting compensation awards, and makes appropriate proposals for Board approval. In particular, it recommends all forms of compensation to be granted to our Directors, executive officers and key managerial personnel.

The Nomination, Governance and Compensation Committee also administers our Employee Stock Option Schemes.

The Nomination, Governance and Compensation Committee consists of the following non-full time, independent directors as of March 31, 2018:

- Mr. Anupam Puri (Chairman);
- Mr. Prasad R. Menon; and
- Mr. Bharat Narotam Doshi.

The corporate officer heading our Human Resources function serves as the Secretary of the Committee. The Nomination, Governance and Compensation Committee met four times during the year ended March 31, 2018.

***Science, Technology and Operations Committee.***

The primary functions of the Science, Technology and Operations Committee are to:

Advise our Board and management on scientific, medical and technical matters and operations involving our development and discovery programs (generic and proprietary), including major internal projects, business development opportunities, interaction with academic and other outside research organizations;

Assist our Board and management in staying abreast of novel scientific and technologies developments and innovations, anticipating emerging concepts and trends in therapeutic research and development, and making well-informed choices in committing our resources;

- Assist our Board and management in creating valuable intellectual property;
- Review the status of non-infringement patent challenges; and

Assist our Board and management in building and nurturing science in our organization in line with our business strategy.

The Science, Technology and Operations Committee consists of the following non-full time, independent directors as of March 31, 2018:

- Dr. Bruce L.A. Carter (Chairman);
- Mr. Anupam Puri;
- Ms. Kalpana Morparia;
- Mr. Prasad R. Menon; and
- Mr. Hans Peter Hasler.

The corporate officers heading our Integrated Product Development Operations, Proprietary Products and Biologics functions serve as the Secretary of the Committee with regard to their respective businesses. The Science, Technology and Operations Committee met four times during the year ended March 31, 2018.

***Risk Management Committee.***

The primary function of the Risk Management Committee is to:

- Discuss with senior management our enterprise risk management and provide oversight as may be needed;
- Ensure that it is apprised of our more significant risks including certain country risks and cyber security risks, along with the risk mitigation steps implemented to ensure effective enterprise risk management; and
- Review risk disclosure statements in any public documents or disclosures, where applicable.

The Risk Management Committee consists of the following non-full time, independent directors as of March 31, 2018:

- Dr. Omkar Goswami (Chairman);
- Dr. Bruce L.A. Carter;
- Mr. Sridar Iyengar; and
- Mr. Hans Peter Hasler.

Our Chief Financial Officer is the Secretary of the Risk Management Committee. This Committee met three times during the year ended March 31, 2018.

*Corporate Social Responsibility (“CSR”) Committee.*

The primary function of the Corporate Social Responsibility Committee is to:

• Formulate, review and recommend to the Board a corporate social responsibility policy indicating the activities to be undertaken by us as specified in Schedule VII of the Companies Act, 2013.

• Recommend the amount of expenditures to be incurred in connection with our corporate social responsibility initiatives;

- Provide guidance on our corporate social responsibility initiatives and monitor their progress; and
- Monitor implementation and adherence to our corporate social responsibility policy from time to time.

The Corporate Social Responsibility Committee consists of the following directors as of March 31, 2018:

- Mr. Bharat Narotam Doshi (Chairman);
- Mr. G.V. Prasad; and
- Mr. K. Satish Reddy.

Our corporate officer heading our Corporate Social Responsibility function serves as the Secretary of the Corporate Social Responsibility Committee. This Committee met four times during the year ended March 31, 2018.

*Stakeholders Relationship Committee.*

Effective May 13, 2014, the name of our “Shareholders Grievance Committee” has been changed to “Stakeholders Relationship Committee” in accordance with the provisions of Section 178 of the Indian Companies Act, 2013. The primary function of the Stakeholders’ Relationship Committee is to:



- Review of investor complaints and how they were redressed;
- Review of queries received from investors;
- Review of work done by our share transfer agent; and
- Review of corporate actions related to our security holders.

The Stakeholders' Relationship Committee consists of the following directors as of March 31, 2018:

- Ms. Kalpana Morparia (Chairperson);
- Mr. Bharat Narotam Doshi;
- Mr. G.V. Prasad; and
- Mr. K. Satish Reddy.

Our Company Secretary is the Secretary of the Stakeholders' Relationship Committee. This Committee met four times during the year ended March 31, 2018.

**6.D. Employees**

The following table sets forth the number of our employees as at March 31, 2018, 2017 and 2016.

|                             | As at March 31, 2018 |               |        |               | Total  |
|-----------------------------|----------------------|---------------|--------|---------------|--------|
|                             | India                | North America | Europe | Rest of World |        |
| Manufacturing(1)            | 11,424               | 293           | 168    | 300           | 12,185 |
| Sales and marketing(2)      | 5,972                | 181           | 62     | 1,403         | 7,618  |
| Research and development(3) | 2,196                | 37            | 124    | 28            | 2,385  |
| Others(4)                   | 966                  | 101           | 53     | 216           | 1,336  |
| Total                       | 20,558               | 612           | 407    | 1,947         | 23,524 |

|                             | As at March 31, 2017 |               |        |               | Total  |
|-----------------------------|----------------------|---------------|--------|---------------|--------|
|                             | India                | North America | Europe | Rest of World |        |
| Manufacturing(1)            | 11,261               | 293           | 164    | 300           | 12,018 |
| Sales and marketing(2)      | 5,778                | 161           | 48     | 1,351         | 7,338  |
| Research and development(3) | 1,945                | 60            | 143    | 59            | 2,207  |
| Others(4)                   | 768                  | 100           | 51     | 189           | 1,108  |
| Total                       | 19,752               | 614           | 406    | 1,899         | 22,671 |

|                             | As at March 31, 2016 |               |        |               | Total  |
|-----------------------------|----------------------|---------------|--------|---------------|--------|
|                             | India                | North America | Europe | Rest of World |        |
| Manufacturing(1)            | 10,584               | 352           | 169    | 259           | 11,364 |
| Sales and marketing(2)      | 5,625                | 141           | 33     | 1,388         | 7,187  |
| Research and development(3) | 2,298                | 49            | 120    | 50            | 2,517  |
| Others(4)                   | 724                  | 105           | 65     | 213           | 1,107  |
| Total                       | 19,231               | 647           | 387    | 1,910         | 22,175 |

(1)Includes quality, technical services and warehouse.

(2)Includes business development.

(3)Includes employees engaged in contract research services provided to other companies.

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

We did not experience any significant work stoppages in the years ended March 31, 2018 and 2017, and we consider our relationship with our employees and labor unions to be good. Approximately 4% of our employees belong to labor unions.

**6.E. Share ownership**

The following table sets forth, as of March 31, 2018 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 <sup>(1) (2)</sup> | % of Outstanding Capital | No. of Options Held <sup>(5)</sup> | Vesting and Expiration Date (See note no.) |
|---|---------------------------------------|--------------------------|------------------------------------|--|
| Mr. G.V. Prasad <sup>(3)</sup>              | 1,179,140                             | 0.71                     | % —                                | —  |
| Mr. K. Satish Reddy <sup>(3)</sup>          | 1,019,332                             | 0.61                     | % —                                | —  |
| Dr. Omkar Goswami <sup>(3)</sup>            | 22,800                                | 0.01                     | % —                                | —  |
| Mr. Anupam Puri (ADRs) <sup>(3)</sup>       | 13,500                                | 0.01                     | % —                                | —  |
| Ms. Kalpana Morparia <sup>(3)</sup>         | 10,800                                | 0.01                     | % —                                | —  |
| Dr. Bruce L.A. Carter (ADRs) <sup>(3)</sup> | 7,800                                 | 0.00                     | % —                                | —  |
| Mr. Prasad R. Menon <sup>(3)</sup>          | —                                     | —                        | —                                  | —  |
| Mr. Sridar Iyengar <sup>(3)</sup>           | —                                     | —                        | —                                  | —  |
| Mr. Bharat N. Doshi <sup>(3)</sup>          | 1,000                                 | 0.00                     | % —                                | —  |
| Mr. Hans Peter Hasler <sup>(3)</sup>        | —                                     | —                        | —                                  | —  |
| Mr. Abhijit Mukherjee                       | 32,986                                | 0.02                     | % 13,625                           | (4 )                                       |
| Dr. Cartikeya Reddy                         | —                                     | —                        | 9,100                              | (4 )                                       |
| Mr. Saumen Chakraborty                      | 38,750                                | 0.02                     | % 11,375                           | (4 )                                       |
| Mr. M.V. Ramana                             | 20,561                                | 0.01                     | % 10,195                           | (4 )                                       |
| Dr. Amit Biswas                             | 8,074                                 | 0.00                     | % 7,800                            | (4 )                                       |
| Mr. Alok Sonig                              | 9,040                                 | <sup>(6)</sup> 0.00      | % 9,620 <sup>(7)</sup>             | (4 )                                       |
| Dr. K.V.S. Ram Rao                          | 8,000                                 | 0.00                     | % 8,150                            | (4 )                                       |
| Mr. Ganadhish Kamat                         | 774                                   | 0.00                     | % 5,822                            | (4 )                                       |
| Dr. Anil Namboodiripad (ADRs)               | 7,896                                 | 0.00                     | % 5,782                            | (4 )                                       |
| Ms. Archana Bhaskar                         | —                                     | —                        | 6,400                              | (4 )                                       |
| Mr. Sanjay Sharma                           | —                                     | —                        | —                                  | —  |

- (1) Shares held in their individual name only.
- (2) All shares have voting rights.
- (3) Not eligible for grant of stock options.
- (4) The options vest on various dates between the year ending March 31, 2018 and the year ending March 31, 2022.
- (5) The options expire after five years from the date of vesting. Each of the options has an exercise price of Rs.5 and results in the issuance of one equity share upon its exercise.
- (6) Includes 940 ADRs.
- (7) Includes 7,320 ADRs.

### **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. During the year ended March 31, 2018, options to purchase ordinary shares and ADSs were awarded to various of our executive officers and other employees under these two plans as follows: an aggregate of 221,416 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 provided for time-based vesting in 25% increments over four years. As of March 31, 2018, options were outstanding under these two plans for an aggregate of 427,852 shares and ADSs with an average exercise price of Rs.5 per share.

For the years ended March 31, 2018 and 2017, Rs.454 million and Rs.398 million, respectively, have been recorded as employee share-based payment expense under all of our employee stock incentive plans. As of March 31, 2018, there was Rs.274 million of total unrecognized compensation cost related to unvested stock options. This cost is expected to be recognized over a weighted-average period of 1.98 years. For further information regarding our options and stock option incentive plans, see Note 19 to our consolidated financial statements.

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****7.A. Major shareholders**

All of our equity shares have the same voting rights. As of March 31, 2018, a total of 26.76% of our equity shares were held by the following parties:

• Mr. G.V. Prasad (Co-Chairman, Managing Director and Chief Executive Officer);

• Mr. K. Satish Reddy (Chairman of the Board);

• Mrs. K. Samrajyam, mother of Mr. K. Satish Reddy, and Mrs. G. Anuradha, wife of Mr. G.V. Prasad (hereafter collectively referred as the “Family Members”); and

Dr. Reddy’s Holdings Limited (formerly known as Dr. Reddy’s Holdings Private Limited), a company in which the APS Trust owns 83.11% of the equity and the remainder is held by Mr. G.V. Prasad HUF, Mr. K. Satish Reddy individually and as HUF and the Family Members. Mr. G.V. Prasad, Mr. K. Satish Reddy, Mrs. G. Anuradha, Mrs. Deepti Reddy and their bloodline descendents are the beneficiaries of the APS Trust. Mr. G.V. Prasad, Mr. K. Satish Reddy, Mrs. G. Anuradha and Mrs. Deepti Reddy are the sole members of the Board of Directors of Dr. Reddy’s Holdings Limited. Mr. G.V. Prasad and Mr. K. Satish Reddy are the sole trustees of the APS trust.

The following table sets forth information regarding the beneficial ownership of our shares by the foregoing persons as of March 31, 2018:

| Name  | <b><u>Equity Shares Beneficially Owned<sup>(1)</sup></u></b> |                      |   |
|---|--|----------------------|---|
|   | Number of Shares   | Percentage of Shares |   |
| Dr. Reddy’s Holdings Limited <sup>(2)</sup> | 41,083,500   | 24.76                | % |
| Mr. G.V. Prasad <sup>(2)</sup>              | 1,179,140  | 0.71                 | % |
| Mr. K. Satish Reddy <sup>(2)</sup>          | 1,019,332  | 0.61                 | % |
| Family Members                              | 1,116,856  | 0.68                 | % |
| Subtotal                                    | 44,398,828   | 26.76                | % |
| Others/public float                         | 121,512,079  | 73.24                | % |
| Total number of shares outstanding          | 165,910,907  | 100.00               | % |

Beneficial ownership is determined in accordance with rules of the U.S. Securities and Exchange Commission, which provides that shares are beneficially owned by any person who has voting or investment power with respect to the shares. All information with respect to the beneficial ownership of any principal shareholder has been<sup>(1)</sup> furnished by that shareholder and, unless otherwise indicated below, we believe that persons named in the table have sole voting and sole investment power with respect to all shares shown as beneficially owned, subject to community property laws where applicable.

The APS Trust owns approximately 83.11% of the equity of Dr. Reddy's Holdings Limited, and thus may be deemed to beneficially own all of the equity shares directly held by Dr. Reddy's Holdings Limited. Mr. G.V. Prasad and Mr. K. Satish Reddy are the sole trustees of the APS Trust. Accordingly, each of Mr. G.V. Prasad and Mr. K.<sup>(2)</sup> Satish Reddy may be deemed to beneficially own all of the equity shares directly held by Dr. Reddy's Holdings Limited. Each of Mr. G.V. Prasad and Mr. K. Satish Reddy disclaims such beneficial ownership pursuant to Rule 13d-4.

In addition, the Deed of Family Settlement of the APS Trust provides for the parties thereto to exercise all rights, including voting rights, with respect to their personally held equity shares in accordance with the directions of the board of trustees of the APS Trust. As a result, each of Mr. K. Satish Reddy and Mr. G.V. Prasad may be deemed to beneficially own all of the equity shares directly held by each other or by any of the other parties to such Deed of Family Settlement. Based on the Amendment No. 3 to Schedule 13D filed with the U.S. Securities and Exchange Commission on October 18, 2017, such equity shares held by other parties to the Deed of Family Settlement consisted of, in each case as of October 4, 2017, an aggregate of 1,115,360 equity shares directly held by Mrs. K. Samrajyam (mother of Mr. K. Satish Reddy) and 1,496 equity shares directly held by Mrs. G. Anuradha (wife of Mr. G.V. Prasad). Each of Mr. G.V. Prasad and Mr. K. Satish Reddy disclaims all such beneficial ownership pursuant to Rule 13d-4.

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

The following shareholders held more than 5% of our equity shares as of:

| Name  | March 31, 2018            |                         | March 31, 2017            |                         | March 31, 2016            |                         |
|---|---------------------------|-------------------------|---------------------------|-------------------------|---------------------------|-------------------------|
|   | No. of equity shares held | % of equity shares held | No. of equity shares held | % of equity shares held | No. of equity shares held | % of equity shares held |
| Dr. Reddy's Holdings Limited <sup>(1)</sup>   | 41,083,500                | 24.76 %                 | 40,627,000                | 24.51 %                 | 39,961,234                | 23.42 %                 |
| First State Investments Management (UK) Limited, Commonwealth Bank of Australia and their associates <sup>(2)</sup> | 10,726,942                | 6.47 %                  | 14,907,551                | 8.99 %                  | 15,181,101                | 8.90 %                  |
| Oppenheimer Funds Distributor, Inc. and its associates  | 5,367,780                 | 3.24 %                  | 5,372,121                 | 3.24 %                  | 8,731,914                 | 5.12 %                  |

Each of the APS Trust, Mr. G.V. Prasad and Mr. K. Satish Reddy may be deemed to beneficially own all of the <sup>(1)</sup>equity shares directly held by Dr. Reddy's Holdings Limited, as described in footnote (2) to the table on the preceding page.

<sup>(2)</sup>In addition to the equity shares disclosed in the above table, First State Investments held an additional 1,745,380 ADSs of our company as of March 31, 2018, bringing their total percentage of equity shares held to 7.52%.

As of March 31, 2018, we had 165,910,907 outstanding equity shares. As of March 31, 2018, there were 138,001 record holders of our equity shares listed and traded on the Indian stock exchanges. Our American Depositary Shares ("ADSs") are listed on the New York Stock Exchange. One ADS represents one equity share of Rs.5 par value per share. As of March 31, 2018, 13.31% of our issued and outstanding equity shares were held by ADS holders. On March 31, 2018 we had approximately 60 registered shareholders and 16,053 beneficial shareholders of record in the United States.

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

Refer to Note 29 of our consolidated financial statements.

### **7.C. Interests of experts and counsel**

Not applicable.

107



## ITEM 8. FINANCIAL INFORMATION

### 8.A. Consolidated statements and other financial information

The following financial statements and auditors' report appear under Item 18 of this Annual Report on Form 20-F and are incorporated herein by reference:

- Report of Independent Registered Public Accounting Firm
- Consolidated statement of financial position as of March 31, 2018 and 2017
- Consolidated income statement for the years ended March 31, 2018, 2017 and 2016
- Consolidated statement of comprehensive income for the years ended March 31, 2018, 2017 and 2016
- Consolidated statement of changes in equity for the years ended March 31, 2018, 2017 and 2016
- Consolidated statement of cash flows for the years ended March 31, 2018, 2017 and 2016
- Notes to the consolidated financial statements

Our financial statements included in this Annual Report on Form 20-F have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The financial statements included herein are for our three most recent fiscal years.

### **Amount of Export Sales**

For the year ended March 31, 2018, our export revenues (i.e., revenues from all geographies other than India) were Rs.118,702 million, and accounted for 84% of our total revenues.

### **Legal Proceedings**

Refer to Note 39 of our consolidated financial statements.

### **Dividend Policy**

In the years ended March 31, 2016, 2017 and 2018, we paid cash dividends of Rs.20 per equity share per year. Every year our Board of Directors recommends the amount of dividends to be paid to shareholders, if any, based upon conditions then existing, including our earnings, financial condition, capital requirements and other factors. In our Board of Directors' meeting held on May 22, 2018, the Board of Directors proposed a dividend per share of Rs.20 and aggregating to Rs.3,318 million plus an additional amount of Rs.682 million, which is intended to equal the applicable dividend tax, all of which is subject to the approval of our shareholders.

Holders of our ADSs are entitled to receive dividends payable on equity shares represented by such ADSs. Cash dividends on equity shares represented by our ADSs are paid to the depository in Indian rupees and are converted by the depository into U.S. dollars and distributed, net of depository fees, taxes, if any, and expenses, to the holders of such ADSs.

#### *8.B. Significant changes*

Refer to note 42 to our consolidated financial statements.

## ITEM 9. THE OFFER AND LISTING

## 9.A. Offer and listing details

*Information Regarding Price History*

The following tables set forth the price history for our shares on the BSE Limited (formerly known as the Bombay Stock Exchange Limited) (“BSE”) and National Stock Exchange of India Limited (“NSE”), and for our ADSs on the New York Stock Exchange (“NYSE”).

| Year            | BSE<br>Price Per Equity Share <sup>(1)</sup> |           | NSE<br>Price Per Equity Share <sup>(1)</sup> |           | NYSE<br>Price Per ADS <sup>(1)</sup> |              |
|-----------------|--|-----------|--|-----------|--------------------------------------|--------------|
|                 | High (Rs.)                                   | Low (Rs.) | High (Rs.)                                   | Low (Rs.) | High<br>(U.S.\$)                     | Low (U.S.\$) |
| Ended March 31, |  |           |  |           |                                      |              |
| 2014            | 2,939.80                                     | 1,766.30  | 2,939.40                                     | 1,768.25  | 47.93                                | 31.32        |
| 2015            | 3,662.00                                     | 2,250.00  | 3,666.25                                     | 2,246.50  | 59.02                                | 38.23        |
| 2016            | 4,382.95                                     | 2,750.00  | 4,386.60                                     | 2,750.05  | 68.00                                | 40.68        |
| 2017            | 3,689.00                                     | 2,560.00  | 3,689.85                                     | 2,555.20  | 54.73                                | 39.04        |
| 2018            | 2,788.00                                     | 1,901.65  | 2,787.00                                     | 1,901.15  | 42.97                                | 29.83        |

| Quarter Ended      | BSE<br>Price Per Equity Share <sup>(1)</sup> |           | NSE<br>Price Per Equity Share <sup>(1)</sup> |           | NYSE<br>Price Per ADS <sup>(1)</sup> |              |
|--------------------|--|-----------|--|-----------|--------------------------------------|--------------|
|                    | High (Rs.)                                   | Low (Rs.) | High (Rs.)                                   | Low (Rs.) | High<br>(U.S.\$)                     | Low (U.S.\$) |
| June 30, 2016      | 3,396.70                                     | 2,825.00  | 3,393.10                                     | 2,822.00  | 51.30                                | 41.60        |
| September 30, 2016 | 3,689.00                                     | 2,925.10  | 3,689.85                                     | 2,925.10  | 54.73                                | 42.52        |
| December 31, 2016  | 3,394.95                                     | 2,842.00  | 3,399.90                                     | 2,960.05  | 50.10                                | 44.06        |
| March 31, 2017     | 3,203.95                                     | 2,560.00  | 3,203.85                                     | 2,555.20  | 46.95                                | 39.04        |
| June 30, 2017      | 2,771.40                                     | 2,382.05  | 2,770.00                                     | 2,380.35  | 42.72                                | 37.03        |
| September 30, 2017 | 2,788.00                                     | 1,901.65  | 2,787.00                                     | 1,901.15  | 42.97                                | 29.83        |
| December 31, 2017  | 2,504.70                                     | 2,175.00  | 2,504.00                                     | 2,171.00  | 37.79                                | 33.89        |
| March 31, 2018     | 2,611.80                                     | 1,990.70  | 2,615.00                                     | 2,005.55  | 39.96                                | 31.92        |

| Month Ended | BSE<br>Price Per Equity Share <sup>(1)</sup> |           | NSE<br>Price Per Equity Share <sup>(1)</sup> |           | NYSE<br>Price Per ADS <sup>(1)</sup> |              |
|-------------|--|-----------|--|-----------|--------------------------------------|--------------|
|             | High (Rs.)                                   | Low (Rs.) | High (Rs.)                                   | Low (Rs.) | High<br>(U.S.\$)                     | Low (U.S.\$) |

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|                   |          |          |          |          |       |       |
|-------------------|----------|----------|----------|----------|-------|-------|
| October 31, 2017  | 2,504.70 | 2,317.80 | 2,504.00 | 2,315.00 | 37.40 | 35.30 |
| November 30, 2017 | 2,498.00 | 2,260.00 | 2,494.00 | 2,260.15 | 37.65 | 34.76 |
| December 31, 2017 | 2,246.00 | 2,175.00 | 2,448.40 | 2,171.00 | 37.79 | 33.89 |
| January 31, 2018  | 2,611.80 | 2,205.00 | 2,615.00 | 2,203.55 | 39.96 | 34.13 |
| February 28, 2018 | 2,265.95 | 1,990.70 | 2,266.95 | 2,005.55 | 34.96 | 32.04 |
| March 31, 2018    | 2,248.00 | 2,053.20 | 2,239.90 | 2,050.30 | 34.42 | 31.92 |

<sup>(1)</sup> Source: [www.bseindia.com](http://www.bseindia.com), [www.nseindia.com](http://www.nseindia.com), and [www.nyse.com](http://www.nyse.com), respectively.

9.B. *Plan of distribution*

Not applicable.

9.C. *Markets*

*Markets on Which Our Shares Trade*

Our equity shares are traded on the BSE Limited (formerly known as the Bombay Stock Exchange Limited) (“BSE”) and National Stock Exchange of India Limited (“NSE”), or collectively, the “Indian Stock Exchanges.” Our American Depositary Shares (or “ADSs”), as evidenced by American Depositary Receipts (or “ADRs”), are traded in the United States on the New York Stock Exchange (“NYSE”), under the ticker symbol “RDY.” Each ADS represents one equity share. Our ADSs began trading on the NYSE on April 11, 2001. Our shareholders approved the delisting of our shares from the Hyderabad Stock Exchange Limited, The Stock Exchange, Ahmedabad, The Madras Stock Exchange Limited and The Calcutta Stock Exchange Association Limited at the general shareholders meeting held on August 25, 2003.

9.D. *Selling shareholders*

Not applicable.

9.E. *Dilution*

Not applicable.

109

9.F. *Expenses of the issue*

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

10.A. *Share capital*

Not applicable.

10.B. *Memorandum and articles of association*

Dr. Reddy's Laboratories Limited was incorporated under the Indian Companies Act, 1956. We are registered with the Registrar of Companies, Hyderabad, Telangana, India, with Company Identification No. L85195AP1984PLC004507. Our company's registration number changed to L85195TG1984PLC004507 effective as of June 2, 2014.

Our registered office is located at 8-2-337, Road No. 3, Banjara Hills, Hyderabad, Telangana 500 034, India and the telephone number of our registered office is +91-40-49002900. The summary of our Articles of Association and Memorandum of Association that is included in our registration statement on Form F-1 filed with the U.S. Securities and Exchange Commission (the "SEC") on April 11, 2001, together with copies of the Articles of Association and Memorandum of Association that are included in our registration statement on Form F-1, are incorporated herein by reference.

The Memorandum and Articles of Association were amended at the 17th Annual General Meeting held on September 24, 2001, 18th Annual General Meeting held on August 26, 2002, the 20th Annual General Meeting held on July 28, 2004 and the 22nd Annual General Meeting held on July 28, 2006. A full description of these amendments was given in the Form 20-F filed with the SEC on September 30, 2003, September 30, 2004 and October 2, 2006, which description is incorporated herein by reference. The Memorandum and Articles of Association were amended at the 22nd Annual General Meeting held on July 28, 2006 to increase the authorized share capital in connection with the stock split effected in the form of a stock dividend that occurred on August 30, 2006.

The Memorandum and Articles of Association were further amended in accordance with the terms of an Order of the High Court of Judicature, Andhra Pradesh, dated June 12, 2009 to effect an increase in our parent company's authorized share capital pursuant to the amalgamation of Perlecan Pharma Private Limited into our parent company. In a related order dated June 12, 2009, the High Court concluded that there was no need to have a shareholders' meeting in order to affect such amendment.

The Memorandum and Articles of Association were further amended in accordance with the terms of an Order of the High Court of Judicature, Andhra Pradesh, dated July 19, 2010 to provide for the capitalization or utilization of undistributed profit or retained earnings or security premium account or any other reserve or fund of ours with the approval of our shareholders in connection with our bonus debentures.

The Memorandum and Articles of Association were amended by adopting a new set of Articles of Association which replaced and superseded in its entirety the existing Articles of Association of the Company. This was primarily done to align the Articles of Association with the new Companies Act, 2013 and the rules thereunder. This amendment was approved by our shareholders on September 17, 2015. The new Articles of Association were furnished to the SEC on a Form 6-K on September 25, 2015.

10.C. *Material contracts*

*Asset purchase agreement with Teva Pharmaceutical Industries Limited*

On June 10, 2016, we entered into definitive asset purchase agreements with Teva Pharmaceutical Industries Limited (“Teva”) and an affiliate of Allergan plc (“Allergan”) to acquire eight Abbreviated New Drug Applications (“ANDAs”) in the United States for U.S.\$350 million in cash at closing. The acquired products were divested by Teva as a precondition to the closing of its acquisition of Allergan’s generics business. The acquisition of these ANDAs was also contingent on the closing of the Teva/Allergan generics purchase transaction and approval by the U.S. Federal Trade Commission. The acquisition was consummated on August 3, 2016 upon the completion of all closing conditions, and the Company paid U.S.\$350 million as the consideration for the acquired ANDAs.

The two asset purchase agreements are attached as Exhibits 2.6 and 2.7, respectively, to our report on Form 20-F for the year ended March 31, 2017. Each such agreement was included to provide you with information regarding its terms. Except for its status as a contractual document that establishes and governs the legal relations among the parties thereto with respect to the asset sale thereunder, we do not intend for its text to be a source of factual, business or operational information about us. Such agreement contains representations, warranties and covenants that are qualified and limited, including by information in the schedules that the parties delivered in connection with the execution of such agreement. Representations and warranties may be used as a tool to allocate risks between the respective parties to such agreement, including where the parties do not have complete knowledge of all facts, instead of establishing such matters as facts. Furthermore, the representations and warranties may be subject to different standards of materiality applicable to the contracting parties, which may differ from what may be viewed as material to stockholders. These representations and warranties may or may not have been accurate as of any specific date and do not purport to be accurate as of the date of our report on Form 20-F for the year ended March 31, 2017 or as of the date of this report on Form 20-F. You should not rely on its representations, warranties or covenants as characterizations of the actual state of facts or condition of us or any of our affiliates.



#### 10.D. *Exchange controls*

Foreign investment in Indian securities, whether in the form of foreign direct investment or in the form of portfolio investment, is governed by the Foreign Exchange Management Act, 1999, as amended (“FEMA”), and the rules, regulations and notifications issued thereunder. Set forth below is a summary of the restrictions on transfers applicable to both foreign direct investments and portfolio investments, including the requirements under Indian law applicable to the issuance and transfer of ADSs.

#### **Foreign Direct Investment**

The Foreign Direct Investment Policy under the Reserve Bank of India’s (“RBI”) Automatic Route enables Indian companies (other than those specifically excluded thereunder) to issue shares to persons who reside outside of India without prior permission from the RBI, except in cases where there are ceilings of investments in certain industry sectors and subject to certain conditions.

The Department of Industrial Policy and Promotion, a part of the Ministry of Commerce and Industry, issued detailed guidelines in January 1997 for consideration of foreign direct investment proposals by the Foreign Investment Promotion Board (the “Guidelines”). The basic objective of the Guidelines is to improve the transparency and objectivity of the Foreign Investment Promotion Board’s consideration of proposals. However, since these are administrative guidelines and have not been codified as either law or regulations, they are not legally binding with respect to any recommendation made by the Foreign Investment Promotion Board or with respect to any decision taken by the Government of India in cases involving foreign direct investment.

Under the Guidelines, sector specific guidelines for foreign direct investment and the levels of permitted equity participation have been established. In February 2000, the Department of Industrial Policy and Promotion issued a notification that foreign ownership of up to 50%, 51%, 74% or 100%, depending on the category of industry, would be allowed without prior permission of the Foreign Investment Promotion Board and, in certain cases, without prior permission of the RBI. Over a period of time, the Government of India has relaxed the restrictions on foreign investment, including the revision of the investment cap from 26% to 49% in the insurance sector and 74% subject to RBI guidelines for setting up branches/subsidiaries of foreign banks in the private banking sector.

In May 1994, the Government of India announced that purchases by foreign investors of ADSs, as evidenced by ADRs, and foreign currency convertible bonds of Indian companies would be treated as foreign direct investment in the equity issued by Indian companies for such offerings. Therefore, offerings that involve the issuance of equity that results in Foreign Direct Investors holding more than the stipulated percentage of direct foreign investments (which

depends on the category of industry) would require approval from the Foreign Investment Promotion Board.

In addition, offerings by Indian companies of any such securities to foreign investors require Foreign Investment Promotion Board approval, whether or not the stipulated percentage limit would be reached if the proceeds will be used for investment in specified industries.

For investments in the pharmaceutical sector, the Foreign Direct Investment limit is 100%. However, unlike Foreign Direct Investments in new pharmaceutical projects (sometimes called “greenfield” investments), Foreign Direct Investments in existing Indian pharmaceutical companies (sometimes called “brownfield” investments) are nonetheless subject to approval by the Foreign Investment Promotion Board in excess of 74% (which can incorporate conditions for its approval at the time of grant). Thus, foreign ownership of in excess of 74% of our equity shares would be allowed but would require certain approvals.

The Ministry of Finance abolished the Foreign Investment Promotion Board in May 2017 and the processing of applications for Foreign Direct Investment and approval of the Government thereon under the Policy and FEMA, was transferred to be handled by the concerned Ministries/Departments in consultation with the Department of Industrial Policy Promotion.

### **Portfolio Investment Scheme**

Under Indian law, persons or entities residing outside of India cannot acquire securities of an Indian company listed on a stock exchange (“Portfolio Investments”) unless such non-residents are (a) persons of Indian nationality or origin residing outside of India (also known as Non-Resident Indians or “NRIs”) or (b) registered Foreign Institutional Investors (“FIIs”) or Foreign Portfolio Investors (“FPIs”).

*Portfolio Investments by NRIs*

A variety of methods for investing in shares of Indian companies are available to NRIs. These methods allow NRIs to make Portfolio Investments in existing shares and other securities of Indian companies on a basis not generally available to other foreign investors.

*Portfolio Investments by FIIs*

In September 1992, the Government of India issued guidelines that enable FIIs, including institutions such as pension funds, investment trusts, asset management companies, nominee companies and incorporated/institutional portfolio managers, to invest in all of the securities traded on the primary and secondary markets in India. Under the guidelines, FIIs are required to obtain an initial registration from the Securities and Exchange Board of India (“SEBI”), and a general permission from the RBI to engage in transactions regulated under the Foreign Exchange Management Act. FIIs must also comply with the provisions of the SEBI (Foreign Institutional Investors Regulations) 1995. When it receives the initial registration, the FII also obtains general permission from the RBI to engage in transactions regulated under the Foreign Exchange Management Act. Together, the initial registration and the RBI’s general permission enable the registered FII to: (i) buy (subject to the ownership restrictions discussed below) and sell unrestricted securities issued by Indian companies; (ii) realize capital gains on investments made through the initial amount invested in India; (iii) participate in rights offerings for shares; (iv) appoint a domestic custodian for custody of investments held; and (v) repatriate the capital, capital gains, dividends, interest income and any other compensation received pursuant to rights offerings of shares.

*Portfolio Investments by FPIs*

Effective June 1, 2014, the regime permitting Portfolio Investments by FIIs has been replaced with the SEBI (Foreign Portfolio Investors) Regulations, 2014 (the “FPI Regulations”), a new regime permitting Portfolio Investments by Foreign Portfolio Investors (“FPIs”). FPIs are subject to ownership limits in Portfolio Investments, as further described below, and only certain categories of FPIs may invest or deal in “offshore derivative instruments” (defined under the FPI Regulations as any instrument which is issued overseas by a FPI against underlying securities held by it that are listed or proposed to be listed on any recognized stock exchange in India). FPIs are required to be registered with the designated depository participant on behalf of SEBI subject to compliance with “Know Your Customer” rules.

Certain FIIs may continue to remain eligible to make Portfolio Investments for a limited time under the transition rules. Any FII or Qualified Foreign Investor (“QFI”) who holds a valid certificate of registration will be deemed to be a FPI until the expiration of three years from the date on which fees have been paid per the Securities and Exchange

Board of India (Foreign Institutional Investors) Regulations, 1995. All existing FIIs and sub accounts, subject to payment of conversion fees specified in the FPI Regulations, may continue to buy, sell or otherwise deal in securities subject to the provisions of the FPI Regulations, until the earlier of (i) expiration of its registration as a FII or sub-account, or (ii) obtaining a certificate of registration as a FPI. Effective as of June 1, 2015, a QFI must obtain a certificate of registration as a FPI in order to be eligible to buy, sell or otherwise deal in securities.

Subject to compliance with the FPI Regulations, a FPI may issue or otherwise deal in “offshore derivative instruments” (defined under the FPI Regulations as any instrument, by whatever name called, which is issued overseas by a FPI against securities held by it that are listed or proposed to be listed on any recognized stock exchange in India, as its underlying) directly or indirectly, only in the event (i) such offshore derivative instruments are issued only to persons who are regulated by an appropriate regulatory authority; and (ii) such offshore derivative instruments are issued after compliance with “know your client” norms. Offshore derivative instruments may not be dealt with by “Category III” FPIs, or by unregulated broad based funds which are classified as “Category II” FPIs by virtue of their investment manager being appropriately regulated. A FPI is also required to ensure that no further issue or transfer of any offshore derivative instrument is made by or on behalf of it to any persons that are not regulated by an appropriate foreign regulatory authority.

In furtherance of the FPI Regulations, the RBI amended relevant provisions of Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000 by a notification dated March 13, 2014. The portfolio investor registered in accordance with the FPI Regulations would be called a “Registered Foreign Portfolio Investor” (or “RFPI”). Accordingly, a RFPI may purchase and sell shares and convertible debentures of an Indian company through a registered broker as well as purchase shares and convertible debentures offered to the public under the FPI Regulations.

Further, a RFPI may sell shares or convertible debentures so acquired (i) in an open offer in accordance with the Securities Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011; or (ii) in an open offer in accordance with the Securities Exchange Board of India (Delisting of Equity Shares) Regulations, 2009; or (iii) through buyback of shares by a listed Indian company in accordance with the Securities Exchange Board of India (Buy-back of Securities) Regulations, 1998. A RFPI may also acquire shares or convertible debentures (i) in any bid for, or acquisition of securities in response to an offer for disinvestment of shares made by the central government or any state government of India; or (ii) in any transaction in securities pursuant to an agreement entered into with merchant banker in the process of market making or subscribing to unsubscribed portion of the issue in accordance with Chapter XB of the SEBI (ICDR) Regulations, 2009.

### **Ownership restrictions**

The SEBI and the RBI regulations restrict portfolio investments in Indian companies by FIIs, NRIs, RFPIs and OCBs, all of which we refer to as “foreign portfolio investors.” Under current Indian law, FIIs or FPIs may in the aggregate hold not more than 24.0% of the equity shares of an Indian company, and NRIs in the aggregate may hold not more than 10.0% of the shares of a publicly traded Indian company through portfolio investments. The 24.0% limit referred to above can be increased to sectoral cap/statutory limits as applicable if a resolution is passed by the board of directors of the company followed by a special resolution passed by the shareholders of the company to that effect. The 10.0% limit referred to above may be increased to 24.0% if the shareholders of the company pass a special resolution to that effect.

No single FII or FPI may hold more than 10.0% of the shares of an Indian company and no single NRI may hold more than 5.0% of the shares of an Indian company. If multiple entities have at least 50% overlap in their ownership (direct or ultimate beneficial owners), then such entities shall be treated as part of the same group and the above percentage of FPI investment limit shall apply to the entire group as if they were a single FPI.

Our shareholders have passed a resolution enhancing the limits of portfolio investment by FIIs in the aggregate to 49%. NRIs in the aggregate may hold not more than 10.0% of our equity shares through portfolio investments. Holders of ADSs are not subject to the rules governing FIIs or FPIs unless they convert their ADSs into equity shares.

As of March 31, 2018, FIIs and FPIs collectively held 30.25% of our equity shares and NRIs held 1.10% of our equity shares.

In September 2011, the Securities and Exchange Board of India (“SEBI”) enacted the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 (the “2011 Takeover Code”), which replaces the SEBI (Substantial

Acquisition of Shares and Takeovers) Regulations, 1997.

Under the 2011 Takeover Code, upon acquisition of shares or voting rights in a publicly listed Indian company (the “target company”) such that the aggregate shareholding of the acquirer (meaning a person who directly or indirectly, acquires or agrees to acquire shares or voting rights in the target company, or acquires or agrees to acquire control over the target company, either alone or together with any persons acting in concert), is 5% or more of the shares of the target company, the acquirer is required to, within two working days of such acquisition, disclose the aggregate shareholding and voting rights in the target company to the target company and to the stock exchanges in which the shares of the target company are listed.

Furthermore, an acquirer who, together with persons acting in concert with such acquirer, holds shares or voting rights entitling them to 5% or more of the shares or voting rights in a target company must disclose every sale or acquisition of shares representing 2% or more of the shares or voting rights of the target company to the target company and to the stock exchanges in which the shares of the target company are listed within two working days of such acquisition or sale or receipt of intimation of allotment of such shares.

Every acquirer, who together with persons acting in concert with such acquirer, holds shares or voting rights entitling such acquirer to exercise 25% or more of the voting rights in a target company, has to disclose to the target company and to stock exchanges in which the shares of the target company are listed, their aggregate shareholding and voting rights as of the thirty-first day of March, in such target company within seven working days from the end of the financial year of that company.

The acquisition of shares or voting rights that entitles the acquirer to exercise 25% or more of the voting rights in or control over the target company triggers a requirement for the acquirer to make an open offer to acquire additional shares representing at least 26% of the total shares of the target company for an offer price determined as per the provisions of the 2011 Takeover Code. The acquirer is required to make a public announcement for an open offer on the date on which it is agreed to acquire such shares or voting rights. Such open offer shall only be for such number of shares as is required to adhere to the maximum permitted non-public shareholding.

Since we are a listed company in India, the provisions of the 2011 Takeover Code will apply to us and to any person acquiring our ADSs, equity shares or voting rights in our company.

Pursuant to the 2011 Takeover Code, we must report to the Indian stock exchanges on which our equity shares are listed, any disclosures made to us under 2011 Takeover Code.

Holders of ADSs may be required to comply with such notification and disclosure obligations pursuant to the provisions of the Deposit Agreement entered into by such holders, our company and the depository of our ADRs.

### **Subsequent transfer of shares**

A person resident outside India holding the shares or debentures of an Indian company may transfer the shares or debentures so held by him, in compliance with the conditions specified in the relevant Schedule of Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000 (the "Foreign Exchange Management Regulations") as follows:

- (i) A person resident outside India, not being a NRI or an OCB, may transfer by way of sale or gift, the shares or convertible debentures held by him or it to any person resident outside India;
- (ii) A NRI may transfer by way of sale or gift, the shares or convertible debentures held by that person to another NRI; provided that the person to whom the shares are being transferred has obtained prior permission of the Government of India to acquire the shares if he has a previous venture or tie up in India through an investment in shares or debentures or a technical collaboration or a trade mark agreement or investment by whatever name called in the same field or allied field in which the Indian company whose shares are being transferred is engaged. Provided further that the restriction in clauses (i) and (ii) shall not apply to the transfer of shares to international financial institutions such as Asian Development Bank ("ADB"), International Finance Corporation ("IFC"), Commonwealth Development Corporation ("CDC"), Deutsche Entwicklungs Gesellschaft ("DEG") and transfer of shares of an Indian

company engaged in the Information Technology sector. However, a transfer of shares from a NRI to a non-resident (who is not a not a NRI or OCB) requires the prior approval of the Reserve Bank of India.

- (iii) A person resident outside India holding the shares or convertible debentures of an Indian company in accordance with the Foreign Exchange Management Regulations, (a) may transfer such shares or convertible debentures to a person resident in India by way of gift; or (b) may sell such shares or convertible debentures on a recognized Stock Exchange in India through a registered broker.

Restrictions for subsequent transfers of shares of Indian companies between residents and non-residents (other than OCBs) were relaxed significantly as of October 2004. As a result, for a transfer between a resident and a non-resident of securities of an Indian company, no prior approval of either the RBI or the Government of India is required, as long as certain conditions are met.

The RBI further superseded the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000, FEMA 20/2000-RB and FEMA 24/20000-RB, both dated May 3, 2000, as amended from time to time, by notifying implementation of Foreign Exchange Management (Transfer or Issue of Securities by a person Resident Outside India) Regulations, 2017 on November 7, 2017 (the “New Foreign Exchange Management Regulations”). These regulations consolidate all the amendments at one place and also incorporate certain new concepts with respect to the issue or transfer of securities of an Indian company by a person resident outside India.

The New Foreign Exchange Management Regulations give the readers a consolidated view of the transfer or issue of securities by a person resident outside India and also clarifies several aspects of Foreign Direct Investment (“FDI”). These Regulations aim towards further simplification and provide greater clarity on differentiation between FDI and FPI.



## ADS guidelines

Shares of Indian companies represented by ADSs may be approved for issuance to foreign investors by the Government of India under the Issue of Foreign Currency Convertible Bonds and Ordinary Shares (Through Depository Receipt Mechanism) Scheme, 1993 (the “1993 Scheme”), as modified from time to time, promulgated by the Government of India. The 1993 Scheme is in addition but without prejudice to the other policies or facilities, as described below, relating to investments in Indian companies by foreign investors. The issuance of ADSs pursuant to the 1993 Scheme also affords to holders of the ADSs the benefits of Section 115AC of the Income Tax Act, 1961 for purpose of the application of Indian tax laws. In March 2001, the RBI issued a notification permitting, subject to certain conditions, two-way fungibility of ADSs. This notification provides that ADSs converted into Indian shares can be converted back into ADSs, subject to compliance with certain requirements and the limits of sectorial caps.

The Ministry of Finance, Government of India, enacted The Depository Receipts Scheme, 2014 (the “Depository Receipts Scheme”) effective as of December 15, 2014. In order to facilitate the issuance of depository receipts by Indian companies outside India, the Depository Receipts Scheme repeals the former provisions dealing with depository receipts in the Foreign Currency Convertible Bonds and Ordinary Shares (Through Depository Receipt Mechanism) Scheme, 1993. The Depository Receipts Scheme now governs the issue or transfer of permissible securities to a foreign depository by eligible persons and defines the rights and duties of a foreign depository and obligations of a domestic custodian. The Depository Receipts Scheme has not been fully implemented yet.

There are certain relaxations provided under the Depository Receipts Scheme subject to prior approval of the Ministry of Finance. For example, a registered broker is permitted to purchase shares of an Indian company on behalf of a person resident outside of India for the purpose of converting those shares into ADSs. However, such conversion is subject to compliance with the provisions of the Depository Receipts Scheme and the periodic guidelines issued by the regulatory authorities. Therefore depository receipts converted into Indian shares may be converted back into depository receipts, subject to certain limits of sectorial caps.

Under the Depository Receipts Scheme, a foreign depository may take instructions from depository receipts holders to exercise the voting rights with respect to the underlying equity securities. Additionally, a domestic custodian has been defined to include a custodian of securities, an Indian depository, a depository participant or a bank having permission from SEBI to provide services as custodian. Further, the Depository Receipts Scheme provides that the aggregate of permissible securities which may be issued or transferred to foreign depositories for issue of depository receipts, along with permissible securities already held by persons resident outside India, shall not exceed the limit on foreign holding of such permissible securities under the Foreign Exchange Management Act, 1999.

The Department of Economic Affairs, Ministry of Finance made amendments to certain provisions of the Securities Contracts (Regulation) Rules, 1957 vide Securities Contracts (Regulation) (Amendment) Rules, 2015, on February 25,

2015. An amended definition of “public shareholding” has introduced to define equity shares of the Company held by the public to include shares underlying depository receipts if the holder of such depository receipts has the right to issue voting instruction and such depository receipts are listed on an international stock exchange in accordance with the Depository Receipts Scheme.

### **Fungibility of ADSs**

A registered broker in India can purchase shares of an Indian company that issued ADSs, on behalf of a person residing outside India, for the purposes of converting the shares into ADSs.

The Depository Receipts Scheme states that the aggregate of permissible securities which may be issued or transferred to foreign depositories for issue of depository receipts, along with permissible securities already held by persons resident outside India, shall not exceed the limit on foreign holding of such permissible securities under the Foreign Exchange Management Act, 1999.

### **Transfer of ADSs**

A person resident outside India may transfer ADSs held in an Indian company to another person resident outside India without any permission. A person resident in India is not permitted to hold ADSs of an Indian company, except in connection with the exercise of stock options.

Shareholders resident outside India who intend to sell or otherwise transfer equity shares within India should seek the advice of Indian counsel to understand the requirements applicable at that time.

The RBI placed various restrictions on the eligibility of OCBs to make investments in Indian companies in AP (DIR) Series Circular No. 14 dated September 16, 2003. For further information on these restrictions, the circular is available on [www.rbi.org.in](http://www.rbi.org.in) for review.

10.E. *Taxation*

**Indian Taxation**

*General.* The following summary is based on the law and practice of the Income-tax Act, 1961 (the “Income-tax Act”), including the special tax regime contained in Sections 115AC and 115ACA of the Income-tax Act read with the Issue of Foreign Currency Convertible Bonds and Ordinary Shares (through Depository Receipt Mechanism) Scheme, 1993 (collectively, the “Income-tax Act Scheme”), as amended on January 19, 2000. The Income-tax Act is amended every year by the Finance Act of the relevant year. Some or all of the tax consequences of Sections 115AC and 115ACA may be amended or changed by future amendments to the Income-tax Act.

We believe this information is materially complete as of the date hereof. However, this summary is not intended to constitute an authoritative analysis of the individual tax consequences to non-resident holders or employees under Indian law for the acquisition, ownership and sale of ADSs and equity shares.

EACH PROSPECTIVE INVESTOR SHOULD CONSULT TAX ADVISORS WITH RESPECT TO TAXATION IN INDIA OR THEIR RESPECTIVE LOCATIONS ON ACQUISITION, OWNERSHIP OR DISPOSING OF EQUITY SHARES OR ADSS.

*Residence.* For purposes of the Income-tax Act, an individual is considered to be a resident of India during any fiscal year (i.e., April 1 to March 31) if he or she is in India in that year for:

- a period or periods of at least 182 days; or
- at least 60 days and, within the four preceding fiscal years has been in India for a period or periods amounting to at least 365 days.

The period of 60 days referred to above shall be 182 days in case of a citizen of India or a Person of Indian Origin living outside India for the purpose of employment outside India who is visiting India.

The Finance Act 2016 amended section 6 of the Income-tax Act. Pursuant to the amended provision, a company is deemed to be a resident in India in any previous year, if (i) it is a company formed under the laws of India; or (ii) its place of effective management, in that year, is in India. For such purposes, "place of effective management" means a

place where key management and commercial decisions that are necessary for the conduct of business of an entity as a whole are in substance made.

Individuals and companies that are not residents of India are treated as non-residents for purposes of the Income-tax Act.

*Taxation of Distributions.*

As per Section 10(34) of the Income-tax Act, dividends paid by Indian companies to their shareholders are not subject to tax in the hands of the shareholders, except as discussed in paragraph (b) below. For periods prior to March 31, 2013, Indian companies were liable to pay a dividend distribution tax (“DDT”) at the rate of 16.22%, inclusive of applicable surcharges, a special 2% levy called the “Education Cess” and a special 1% levy called the “Secondary and Higher Education Cess”. Effective April 1, 2013, the Finance Act, 2013 increased the surcharge on the DDT from 5% to 10%, which resulted in an increase in the effective rate of DDT from 16.22% to 16.995%. The Finance Act (No 2) 2014 amended section 115-O, which requires grossing up of the dividend amount distributed for a) purposes of computing DDT. Pursuant to the amendment, effective October 1, 2014, the effective rate of DDT increased from 16.995% to 19.994%, inclusive of applicable surcharges and education cess, and as a result, dividend amounts receivable by our shareholders after taxes are reduced. As a result of the increase in rate of surcharge in the Finance Act, 2015, effective April 1, 2015, the effective rate of DDT has further increased from 19.994% to 20.3576%. Furthermore, the Finance Act, 2018 replaced Education Cess of 2% and the Secondary and Higher Education Cess of 1% with a Health and Education Cess of 4% (hereinafter, the “education cess”). Pursuant to the Finance Act, 2018, effective April 1, 2018, the effective rate of DDT has further increased from 20.3576% to 20.5553%.

The Finance Act, 2018 amended section 115R of the Indian Income Tax Act 1961, according to the amendment, b) any income is distributed by a Mutual Fund being, an equity oriented fund to its unit holders, the mutual fund shall be liable to pay additional income tax on such distributed income at a 10% rate, plus applicable surcharges and the education cess.

Dividends received by resident individuals, HUFs or firms exceeding Rs.1,000,000 are taxable at a 10% rate. This c) tax will not be withheld by the company paying the dividend and has to be paid by the shareholder receiving such dividend.

d) Any distributions of additional ADSs or equity shares by way of bonus shares (i.e., stock dividends) to resident or non- resident holders will not be subject to Indian tax.

*Taxation of Capital Gains.* The following is a brief summary of capital gains taxation of non-resident holders and resident employees relating to the sale of ADSs and equity shares received upon redemption of ADSs. The relevant provisions are contained mainly in sections 10(36), 10(38), 45, 47(viia), 111A, 115AC and 115ACA, of the Income-tax Act, in conjunction with the Income- tax Scheme. *You should consult your own tax advisor concerning the tax consequences of your particular situation.*

A non-resident investor transferring our ADS or equity shares outside India to a non-resident investor will not be liable for income taxes arising from capital gains on such ADS or equity shares under the provisions of the Income-tax Act in certain circumstances. Equity shares (including equity shares issuable on the conversion of the ADSs) held by the non-resident investor for a period of more than 12 months are treated as long-term capital assets. If the equity shares are held for a period of less than 12 months from the date of conversion of the ADSs, the capital gains arising on the sale thereof is to be treated as short-term capital gains.

Capital gains are taxed as follows:

- gains from a sale of ADSs outside India by a non-resident to another non-resident are not taxable in India; long-term capital gains realized by a resident and an employee from the transfer of the ADSs will be subject to tax at the rate of 10%, plus the applicable surcharges and the education cess; short-term capital gains on such a transfer will be taxed at graduated rates with a maximum of 30%, plus the applicable surcharges and the education cess;
- long-term capital gains realized by a non-resident upon the sale of equity shares obtained from the conversion of ADSs are subject to tax at a rate of 10%, excluding the applicable surcharges and the Education Cess; and short-term capital gains on such a transfer will be taxed at the rate of tax applicable to the seller; and
- long-term capital gain realized by a non-resident upon the sale of equity shares obtained from the conversion of ADSs is exempt from tax. However, effective as of April 1, 2018, long-term capital gains on sales of equity shares in excess of Rs.100,000 are subject to tax at a rate of 10% without indexation. However, gains incurred on or prior to January 31, 2018 will be grandfathered. Consequently, the current exemption under Section 10(38) of the Income-tax Act has been withdrawn and short term capital gain is taxed at 15%, excluding the applicable surcharges and the Education Cess, if the sale of such equity shares is settled on a recognized stock exchange and the applicable securities transaction tax (“STT”) is paid on such sale.

As per the Finance Act, 2015, the rate of surcharge for Indian companies having total taxable income exceeding Rs.10,000,000 but not exceeding Rs.100,000,000 is 7% and in the case of Indian companies whose total taxable income is greater than Rs.100,000,000, the applicable surcharge is 12%. For foreign companies, the rate of surcharge is 2% if the total taxable income exceeds Rs.10,000,000 but does not exceed Rs.100,000,000 and it is 5% if the total taxable income of the foreign company exceeds Rs.100,000,000.

The Finance Act, 2016 has increased the surcharge for individuals having income exceeding Rs.10,000,000 from 12% to 15%.

As per the Finance Act, 2017, the rate of surcharge for every individual or Hindu undivided family or association of persons or body of individuals, whether incorporated or not, or every artificial juridical person referred to in sub-clause (vii) of clause (31) of section 2 of the Income-tax Act having income exceeding Rs.5,000,000 but not exceeding Rs.10,000,000 is 10%.

As discussed above, the Finance Act, 2018 replaced the Education Cess, which imposed a 2% income tax, and the Secondary and Higher Education Cess, which imposed a 1% income tax, with a new Health and Education Cess, which imposes a 4% income tax.

All assesseees, including individuals, whose advance tax payable is Rs.10,000 or more during the year are required to pay advance tax in four installments as follows:

**Due Date of Installment    Amount Payable**

|                           |   |
|---------------------------|---|
| On or before June 15      | Not less than 15% of such advance tax.  |
| On or before September 15 | Not less than 45% of such advance tax, as reduced by the amounts (if any) paid in earlier installments. |
| On or before December 15  | Not less than 75% of such advance tax, as reduced by the amounts (if any) paid in earlier installments. |
| On or before March 15     | The whole amount of such advance tax, as reduced by the amounts (if any) paid in earlier installments.  |

As per Section 10(38) of the Income-tax Act, long term capital gains arising from the transfer of equity shares on or after October 1, 2004 in a company completed through a recognized stock exchange in India and on which sale the STT has been paid are exempt from Indian tax. The Finance Act, 2017 amended section 10(38) to provide that exemption under this section for capital gains arising upon the transfer of equity shares acquired on or after October 1, 2004 shall not be available if STT is not chargeable on the acquisition of such equity shares, unless the acquisition of equity shares falls within the scope of certain STT payment exceptions specified by the Central Government in a notification. The Finance Act, 2018, withdrew the exemption under Section 10(38) effective as of April 1, 2018.

As per Section 111A of the Income-tax Act, short term capital gains arising from the transfer of equity shares on or after October 1, 2004 in a company completed through a recognized stock exchange in India are subject to tax at a rate of 15%, plus the applicable surcharges and the education cess.

As per the Finance Act, 2004, as modified by the Finance Act, 2008 and the Finance Act, 2013, in a sale and purchase of securities entered into through a recognized stock exchange, a Securities Transaction Tax (“STT”) may be imposed upon one or both of the parties as follows:

With respect to a sale and purchase of equity shares (i) both the buyer and seller are required to pay a STT at the rate of 0.1% of the transaction value of the securities, if the transaction is a delivery based transaction (i.e., the transaction involves actual delivery or transfer of shares); or (ii) the seller of the shares is required to pay a STT at the rate of 0.025% of the transaction value of the securities, if the transaction is a non-delivery based transaction (i.e., the transaction is settled without taking delivery of the shares).

With respect to a sale and purchase of an option with respect to securities (i) upon the sale of the option, the seller is required to pay a STT at the rate of 0.05% of the option premium; and (ii) upon exercise of the option, the buyer is required to pay a STT at the rate of 0.125% of the settlement price.

With respect to a sale and purchase of futures with respect to securities, the seller is required to pay a STT at the rate of 0.01% of the transaction value.

The applicable provisions of the Income Tax Act, in the case of non-residents, may offset the above taxes, except the STT. The capital gains tax is computed by applying the appropriate tax rates to the difference between the sale price and the purchase price of the equity shares or ADSs. Under the Income-tax Scheme, the purchase price of equity shares in an Indian listed company received in exchange for ADSs will be the market price of the underlying shares on the date that the Depository gives notice to the custodian of the delivery of the equity shares in exchange for the corresponding ADSs, or the “stepped up” basis purchase price. The market price will be the price of the equity shares prevailing on the Stock Exchange, Bombay or the National Stock Exchange. There is no corresponding provision under the Income-tax Act in relation to the “stepped up” basis for the purchase price of equity shares. However, the tax department in India has not denied this benefit. In the event that the tax department denies this benefit, the original

purchase price of ADSs would be considered the purchase price for computing the capital gains tax.

According to the Income-tax Scheme, a non-resident holder's holding period for the purposes of determining the applicable Indian capital gains tax rate relating to equity shares received in exchange for ADSs commences on the date of the notice of the redemption by the Depository to the custodian. However, the Income-tax Scheme does not address this issue in the case of resident employees, and it is therefore unclear as to when the holding period for the purposes of determining capital gains tax commences for such a resident employee.

It is unclear as to whether section 115AC of the Income Tax Act and the rest of the Income-tax Scheme are applicable to a non-resident who acquires equity shares outside India from a non-resident holder of equity shares after receipt of the equity shares upon redemption of the ADSs.

It is unclear as to whether capital gains derived from the sale of subscription rights or other rights by a non-resident holder not entitled to an exemption under a tax treaty will be subject to Indian capital gains tax. If such subscription rights or other rights are deemed by the Indian tax authorities to be situated within India, the gains realized on the sale of such subscription rights or other rights will be subject to Indian taxation. The capital gains realized on the sale of such subscription rights or other rights, which will generally be in the nature of short-term capital gains, will be subject to tax (i) at variable rates with a maximum rate of 40%, excluding the prevailing surcharge and education cess, in the case of a foreign company and (ii) at the rate of 30% excluding the prevailing surcharge and education cess in the case of resident employees.

*Withholding Tax on Capital Gains.* Any gain realized by a non-resident or resident employee on the sale of equity shares is subject to Indian capital gains tax, which, in the case of a non-resident is to be withheld at the source by the buyer. However, as per the provisions of Section 196D(2) of the Income-tax Act, no withholding tax is required to be deducted from any income by way of capital gains arising to FIIs (as defined in Section 115AD of the Act) on the transfer of securities (as defined in Section 115AD of the Act).



*Buy-back of Securities.* Indian companies are not subject to any tax on the buy-back of their shares. However, the shareholders are taxed on any resulting gains. We are required to deduct tax at the source according to the capital gains tax liability of a non-resident shareholder. Furthermore, in the case of a buy-back of unlisted securities as per section 115QA of the Finance Act 2013, unlisted domestic companies are subject to tax on the buy-back of their securities. However, section 10(34A) of the Finance Act 2013 exempts shareholders from the gain, if any, arising from such transaction.

*Stamp Duty and Transfer Tax.* Upon issuance of the equity shares underlying our ADSs, we are required to pay a stamp duty of Rs.0.3 per share certificate evidencing such underlying equity shares. A transfer of ADSs is not subject to Indian stamp duty. A sale of equity shares in physical form by a non-resident holder is also subject to Indian stamp duty at the rate of 0.25% of the market value of the equity shares on the trade date, although customarily such duty is borne by the transferee. Shares must be traded in dematerialized form. The issuance or transfer of shares in dematerialized form is currently not subject to stamp duty.

*Wealth Tax.* Wealth Tax was abolished effective as of April 1, 2015.

*Gift Tax and Estate Duty.* Currently, there are no gift taxes or estate duties. These taxes and duties could be restored in future. Non-resident holders are advised to consult their own tax advisors regarding this issue.

*Service Tax.* Brokerage fees or commissions paid to stockbrokers in connection with the sale or purchase of shares is subject to a service tax of 12.36%. The stockbroker is responsible for collecting the service tax from the shareholder and paying it to the relevant authority. Effective June 1, 2015, the Finance Act 2015 increased the rate of service tax from 12.36% (inclusive of surcharge and cess) to a consolidated rate of 14%. Furthermore, effective November 2015, the service tax of 14% was increased by an additional 0.5% cess called the “Swatch Bharat Cess” to a consolidated rate of 14.50%. Effective June 1, 2016, the Finance Act 2016 further increased the service tax rate to 15% through introduction of another 0.5% cess called the “Krishi Kalyan Cess”. Effective July 1, 2017, GST is applicable on such fees or commissions at the rate of 18%.

## **Material United States Federal Income and Estate Tax Consequences**

The following is intended only as a descriptive summary of the material U.S. federal income and estate tax consequences that may be relevant with respect to the acquisition, ownership and disposition of our equity shares or ADSs and is for general information only and does not purport to be a complete analysis or listing of all potential tax effects relevant to the ownership or disposition of our equity shares or ADSs. This summary addresses the U.S. federal income and estate tax considerations of holders that are U.S. holders. “U.S. holders” are beneficial holders of our equity

shares or ADSs who are (i) citizens or residents of the United States, (ii) corporations (or other entities treated as corporations for U.S. federal tax purposes) created in or organized in the United States or under the laws of the United States or any state thereof or any political subdivision thereof or therein, (iii) estates, the income of which is subject to U.S. federal income taxation regardless of its source, and (iv) trusts having a valid election to be treated as U.S. persons in effect under U.S. Treasury Regulations or for which a U.S. court exercises primary supervision and a U.S. person has the authority to control all substantial decisions.

This summary is limited to U.S. holders who will hold our equity shares or ADSs as capital assets (generally, property held for investment). In addition, this summary is limited to U.S. holders who are not residents in India for purposes of the Convention between the Government of the United States of America and the Government of the Republic of India for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion With Respect to Taxes on Income. If a partnership, including any entity treated as a partnership for U.S. federal income tax purposes, holds our equity shares or ADSs, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. A partner in a partnership holding our equity shares or ADSs should consult his, her or its own tax advisor regarding the tax treatment of an investment in our equity shares or ADSs.

This summary does not address tax considerations applicable to holders that may be subject to special tax rules, such as banks, insurance companies, certain financial institutions, regulated investment companies, real estate investment trusts, broker dealers, traders in securities that elect to use the mark-to-market method of accounting, United States expatriates, persons liable for alternative minimum tax, persons holding our equity shares or ADSs through partnerships or other pass-through entities, persons that have a “functional currency” other than the U.S. dollars, tax-exempt entities, persons that will hold our equity shares or ADSs as a position in a “straddle” or as part of a “hedging” or “conversion” transaction for tax purposes or holders of 10% or more, by voting power or value, of our shares. This summary is based on the U.S. Internal Revenue Code of 1986, as amended and as in effect on the date of this Annual Report on Form 20-F and on United States Treasury Regulations in effect or, in some cases, proposed, as of the date of this Annual Report on Form 20-F, as well as judicial and administrative interpretations thereof available on or before such date, and is based in part on the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms. All of the foregoing is subject to change, which change could apply retroactively, or the Internal Revenue Service may interpret existing authorities differently, any of which could affect the tax consequences described below. This summary does not address the U.S. federal tax laws other than income or estate tax, and does not address U.S. state or local or non-U.S. tax laws.

EACH INVESTOR OR PROSPECTIVE INVESTOR SHOULD CONSULT HIS, HER OR ITS OWN TAX ADVISOR WITH RESPECT TO THE U.S. FEDERAL, STATE, LOCAL AND NON-U.S. TAX CONSEQUENCES OF ACQUIRING, OWNING OR DISPOSING OF OUR EQUITY SHARES OR ADSs.

*Ownership of ADSs.* For U.S. federal income tax purposes, holders of our ADSs will generally be treated as the holders of equity shares represented by such ADSs.

*Dividends.* Subject to the passive foreign investment company rules described below, except for our equity shares or ADSs, if any, distributed pro rata to all of our shareholders, including holders of our ADSs, the gross amount of any distributions of cash or property with respect to our equity shares or ADSs (before reduction for any Indian withholding taxes) will generally be included in income by a U.S. holder as foreign source dividend income at the time of receipt, which in the case of a U.S. holder of ADSs generally should be the date of receipt by the Depository, to the extent such distributions are made from our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Such dividends will not be eligible for the dividends received deduction generally allowed to corporate U.S. holders in respect of dividends received from other United States corporations. To the extent, if any, that the amount of any distribution by us exceeds our current and accumulated earnings and profits (as determined under U.S. federal income tax principles) such excess will be treated first as a tax-free return of capital to the extent of the U.S. holder's tax basis in our equity shares or ADSs, and thereafter as capital gain.

With respect to certain non-corporate U.S. holders, subject to certain limitations, including certain limitations based on taxable income and filing status, qualifying dividends paid to non-corporate U.S. holders, including individuals, may be eligible for a reduced rate of taxation if we are deemed to be a "qualified foreign corporation" for United States federal income tax purposes and certain holding period requirements are met (including the requirement that the non-corporate U.S. holder holds the ADSs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date). A qualified foreign corporation includes a foreign corporation if (1) its shares (or, according to legislative history, its ADSs) are readily tradable on an established securities market in the United States or (2) it is eligible for the benefits under a comprehensive income tax treaty with the United States. In addition, a corporation is not a qualified foreign corporation if it is a passive foreign investment company (as discussed below) for either its taxable year in which the dividend is paid or the preceding taxable year. Our ADSs are traded on the New York Stock Exchange, an established securities market in the United States as identified by Internal Revenue Service guidance. Due to the absence of specific statutory provisions addressing ADSs, however, there can be no assurance that we are a qualified foreign corporation solely as a result of our listing on the New York Stock Exchange. Nonetheless, we may be eligible for benefits under the comprehensive income tax treaty between India and the United States.

Qualifying dividends will generally be taxed at a maximum income tax rate of 15% except for U.S. holders with incomes exceeding \$425,800 or, in the case of taxpayers filing joint tax returns, with incomes exceeding \$479,000 which will be subject to tax at the rate of 20% on such qualifying dividends. Further, qualifying dividends received by U.S. holders with incomes less than \$38,600 or, in the case of taxpayers filing joint returns, \$77,200 will be subject to tax at the rate of 0% on such qualifying dividends. Each U.S. holder should consult its own tax advisor regarding the

treatment of dividends and such holder's eligibility for a reduced rate of taxation.

Subject to certain conditions and limitations, any Indian withholding tax imposed upon distributions paid to a U.S. holder with respect to our equity shares or ADSs may be eligible for credit against the U.S. holder's federal income tax liability. Alternatively, a U.S. holder may claim a deduction for such amount, but only for a year in which a U.S. holder does not claim a credit with respect to any foreign income taxes. The overall limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, distributions on our equity shares or ADSs generally will be foreign source income, and will be "passive category income" or "general category income" for purposes of computing the United States foreign tax credit allowable to a U.S. holder. The rules governing the foreign tax credit are very complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

If dividends are paid in Indian rupees, the amount of the dividend distribution included in the income of a U.S. holder will be in the U.S. dollar value of the payments made in Indian rupees, determined utilizing the spot exchange rate between Indian rupees and U.S. dollars applicable to the date such dividend is included in the income of the U.S. holder. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the dividend date to the date such payment is converted into U.S. dollars will be treated as U.S. source ordinary income or loss. You are urged to consult your tax advisors regarding the taxation of currency gain or loss.

EACH U.S. HOLDER SHOULD CONSULT ITS OWNS TAX ADVISOR REGARDING THE TREATMENT OF DIVIDENDS AND SUCH HOLDER'S ELIGIBILITY FOR REDUCED RATE OF TAXATION UNDER THE LAW IN EFFECT FOR THE YEAR OF THE DIVIDEND.

*Sale or exchange of our equity shares or ADSs.* Subject to the passive foreign investment company rules described below, a U.S. holder generally will recognize gain or loss on the sale or exchange of our equity shares or ADSs equal to the difference between the amount realized on such sale or exchange and the U.S. holder's adjusted tax basis in such equity shares or ADSs, as the case may be. Such gain or loss will be capital gain or loss, and will be long-term capital gain or loss if such equity shares or ADSs, as the case may be, were held for more than one year (currently long-term capital gains are taxed at maximum of 20%). Gain or loss, if any, recognized by a U.S. holder generally will be treated as U.S. source passive category income or loss for U.S. foreign tax credit purposes. In the case of capital losses, a U.S. holder is eligible to claim a capital loss deduction subject to significant limitations. If a U.S. holder is unable to claim these losses on its, his or her U.S. Federal Tax Return, the U.S. holder may be eligible to carryover the amount of the unused capital loss to future years, subject to additional limitations provided under U.S. tax regulations. Capital gains realized by a U.S. holder upon the sale of our equity shares (but not ADSs) may be subject to certain tax in India. See "Taxation-Indian Taxation-Taxation of Capital Gains." Due to limitations on foreign tax credits, however, a U.S. holder may not be able to utilize any such taxes as a credit against the U.S. holder's federal income tax liability.

*Estate taxes.* An individual U.S. holder who is a citizen or resident of the United States for U.S. federal estate tax purposes may have the value of our equity shares or ADSs held by such holder included in his or her gross estate for U.S. federal estate tax purposes. An individual holder who actually pays Indian estate tax with respect to our equity shares will, however, be entitled to credit the amount of such tax against his or her U.S. federal estate tax liability, subject to a number of conditions and limitations.

*Additional Tax on Investment Income.* U.S. holders that are individuals, estates or trusts and whose income exceeds certain thresholds (the lesser of the U.S holder's net investment income or modified adjusted gross income, to that extent such amount in a taxable year exceeds \$200,000.00 or, in the case of taxpayers filing joint tax returns, \$250,000.00) will be subject to a 3.8% Medicare contribution tax on unearned income, including, among other things, dividends on, and capital gains from the sale or other taxable disposition of, our equity shares or ADSs, subject to certain limitations and exceptions.

*Backup withholding tax and information reporting requirements.* Any dividends paid on, or proceeds from a sale of, our equity shares or ADSs to or by a U.S. holder may be subject to U.S. information reporting, and a backup withholding tax (currently at a rate of 24%) may apply unless the holder establishes that he, she or it is an exempt recipient or provides a U.S. taxpayer identification number and certifies under penalty of perjury that such number is correct and that such holder is not subject to backup withholding and otherwise complies with any applicable backup withholding requirements.

Any amount withheld under the backup withholding rules will be allowed as a refund or credit against the holder's U.S. federal income tax liability, provided that the required information is timely furnished to the Internal Revenue Service. Certain U.S. holders are required to report information with respect to their investment in our equity shares or ADSs not held through a custodial account with a U.S. financial institution on Internal Revenue Service Form 8938, which must be attached to the U.S. holder's annual income tax return. Investors who fail to report required information could become subject to substantial penalties. In addition, a U.S. holder should consider the possible obligation to file online a FinCEN Form 114 – Foreign Bank and Financial Accounts Report as a result of holding ordinary shares or ADSs. Each U.S. holder should consult its tax advisor concerning its obligation to file Internal Revenue Service Form 8938 and/or FinCEN Form 114.

*Passive foreign investment company.* A non-U.S. corporation will be classified as a passive foreign investment company for U.S. Federal income tax purposes if either:

75% or more of its gross income for the taxable year is passive income;  
or

on average for the taxable year, 50% or more of the total value of its assets produce or are held for the production of passive income (as of the end of each quarter of its taxable year).

We do not believe that we satisfy either of the tests for passive foreign investment company status for the fiscal year ended March 31, 2018. Because this determination is made on an annual basis and depends on a variety of factors (including the value of our ADS), no assurance can be given that we will not be considered a passive foreign investment company in future taxable years. If we were to be a passive foreign investment company for any taxable year, dividends would not be eligible for the preferential tax treatment applicable to qualified dividends income but would instead be taxable at rates applicable to ordinary income. Further, if we were to be a passive foreign investment company for any taxable year, U.S. holders would be required to:

pay an interest charge together with tax calculated at ordinary income rates on “excess distributions” (as the term is defined in relevant provisions of the U.S. tax laws) and on any gain on a sale or other disposition of our equity shares or ADSs;

if an election is made to be a “qualified electing fund” (as the term is defined in relevant provisions of the U.S. tax laws), include in their taxable income their pro rata share of undistributed amounts of our income; or

if the equity shares are “marketable” and a mark-to-market election is made, to mark-to-market the equity shares each taxable year and recognize ordinary gain and, to the extent of prior ordinary gain, recognize ordinary loss for the increase or decrease in market value for such taxable year.

If we are treated as a passive foreign investment company, we do not plan to provide information necessary for the U.S. holder to make a “qualified electing fund” election.

In addition, certain information reporting obligations (i.e., filing Internal Revenue Service Form 8621) may apply to U.S holders if we are determined to be a passive foreign investment company.

THE ABOVE SUMMARY IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE OWNERSHIP, ACQUISITION OR DISPOSITION OF OUR EQUITY SHARES OR ADSs. YOU SHOULD CONSULT YOUR OWN TAX ADVISOR CONCERNING THE TAX CONSEQUENCES TO YOU BASED ON YOUR PARTICULAR SITUATION.

10.F. *Dividends and paying agents*

Not applicable.

10.G. *Statements by experts*

Not applicable.

10.H. *Documents on display*

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This report and other information filed or to be filed by us can be inspected and copied at the public reference facilities maintained by the SEC at Room 1200, 450 Fifth Street, Washington, DC, U.S.A. These reports and other information may also be accessed via the SEC's website at [www.sec.gov](http://www.sec.gov).

Additionally, documents referred to in this Form 20-F may be inspected at our corporate office, which is located at 8-2-337, Road No. 3, Banjara Hills, Hyderabad, Telangana, 500 034, India.

10.I. *Subsidiary information*

Not applicable.



## ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss of future earnings or fair values or future cash flows that may result from a change in the price of a financial instrument. The value of a financial instrument may change as a result of changes in the interest rates, foreign currency exchange rates and other market changes that affect market risk sensitive instruments. Market risk is attributable to all market risk sensitive financial instruments including foreign currency receivables and payables and long term debt. We are exposed to market risk primarily related to foreign exchange rate risk, interest rate risk and the market value of our investments. Thus, our exposure to market risk is a function of investing and borrowing activities and revenue generating and operating activities in foreign currency. The objective of market risk management is to avoid excessive exposure in our foreign currency revenues and costs.

Our Board of Directors and its Audit Committee are responsible for overseeing our risk assessment and management policies. Our major market risks of foreign exchange, interest rate and counter-party risk are managed centrally by our group treasury department, which evaluates and exercises independent control over the entire process of market risk management.

We have a written treasury policy, and we do regular reconciliations of our positions with our counter-parties. In addition, internal audits of the treasury function are performed at regular intervals.

### **Components of Market Risk**

#### ***Foreign Exchange Rate Risk***

Our foreign exchange risk arises from our foreign operations, foreign currency revenues and expenses (primarily in U.S. dollars, Russian roubles, British pound sterling and Euros) and foreign currency borrowings in U.S. dollars, Russian roubles, Ukrainian hryvnias and Euros. A significant portion of our revenues are in these foreign currencies, 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 foreign currencies, our revenues measured in Indian rupees may decrease. The exchange rate between the Indian rupee and these foreign currencies has changed substantially in recent periods and may continue to fluctuate substantially in the future. Consequently, we use both derivative and non-derivative financial instruments, such as foreign exchange forward contracts, option contracts, currency swap contracts and foreign currency financial liabilities, to mitigate the risk of changes in foreign currency exchange rates in respect of our highly probable forecast transactions and recognized assets and liabilities. We do not use derivative financial instruments for trading or speculative purposes.

We had the following derivative financial instruments to hedge the foreign exchange rate risk as of March 31, 2018:

| Category  | Instrument       | Currency | Cross Currency | Amounts in millions | Buy/Sell |
|---|------------------|----------|----------------|---------------------|----------|
| Hedges of recognized assets and liabilities     | Forward contract | U.S.\$   | INR            | U.S.\$ 72           | Sell     |
|   | Forward contract | GBP      | U.S.\$         | GBP 31              | Buy      |
|   | Forward contract | U.S.\$   | RUB            | U.S.\$ 38           | Buy      |
|   | Option contract  | U.S.\$   | INR            | U.S.\$ 65           | Sell     |
| Hedges of highly probable forecast transactions | Forward contract | RUB      | INR            | RUB 1,080           | Sell     |
|   | Option contract  | U.S.\$   | INR            | U.S.\$240           | Sell     |

*Sensitivity Analysis of Exchange Rate Risk.*

In respect of our forward and option contracts, a 10% decrease/increase in the respective exchange rates of each of the currencies underlying such contracts would have resulted in an approximately Rs.1,277/(1,338) million increase/(decrease) in our hedging reserve and an approximately Rs.403/(308) million increase/(decrease) in our net profit as at March 31, 2018.

For a detailed analysis of our foreign exchange rate risk, please refer to Notes 29 and 30 in our consolidated financial statements.

***Commodity Rate Risk***

Our exposure to market risk with respect to commodity prices primarily arises from the fact that we are a purchaser and seller of active pharmaceutical ingredients and the components for such active pharmaceutical ingredients. These are commodity products whose prices can fluctuate sharply over short periods of time. The prices of our raw materials generally fluctuate in line with commodity cycles, though the prices of raw materials used in our active pharmaceutical ingredients business are generally more volatile. Raw material expense forms the largest portion of our operating expenses. We evaluate and manage our commodity price risk exposure through our operating procedures and sourcing policies. We have not entered into any material derivative contracts to hedge our exposure to fluctuations in commodity prices.

**Interest Rate Risk**

As of March 31, 2018, we had loans of Rs.42,592 million (excluding finance lease obligations) carrying a floating interest rate. These loans expose us to risks of changes in interest rates. Our treasury department monitors the interest rate movement and manages the interest rate risk based on its policies, which include entering into interest rate swaps as considered necessary.

**Interest Rate Profile.**

The interest rate profile of our short term borrowings from banks is as follows:

|                                   | As at March 31,<br>2018 |                                       | 2017     |                               |                |
|-----------------------------------|-------------------------|---------------------------------------|----------|-------------------------------|----------------|
|                                   | Currency                | Interest Rate                         | Currency | Interest Rate                 |                |
| Packing credit borrowings         | USD                     | 1 Month LIBOR + (30) to 30 bps        | USD      | 1 Month LIBOR + (30) to 1 bps |                |
|                                   | -                       | -                                     | USD      | 0.01                          | %              |
|                                   | -                       | -                                     | INR      | T-Bill + 30bps                |                |
|                                   | INR                     | 6.00                                  | %        | INR                           | 6.92% to 6.95% |
|                                   | RUB                     | 6.75                                  | %        | RUB                           | 9.95           |
|                                   |                         |                                       |          |                               | %              |
| Other foreign currency borrowings | USD                     | 1 Month/3 Months LIBOR + 65 to 85 bps | USD      | 1 Month LIBOR + 40 to 60 bps  |                |
|                                   | UAH                     | 18.00                                 | %        | -                             | -              |
|                                   | RUB                     | 8.20                                  | %        | RUB                           | 10.48          |
|                                   |                         |                                       |          |                               | %              |

The interest rate profile of our long-term loans and borrowings is as follows:

|                             | As at March 31,<br>2018 |                                | 2017     |                          |   |
|-----------------------------|-------------------------|--------------------------------|----------|--------------------------|---|
|                             | Currency                | Interest Rate                  | Currency | Interest Rate            |   |
| Foreign currency borrowings | USD                     | 1 Month LIBOR + 45 to 82.7 bps | USD      | 1 Month LIBOR + 82.7 bps |   |
|                             | EUR                     | 0.81                           | %        | -                        | - |

**Maturity profile.**

The aggregate maturities of interest-bearing long-term loans and borrowings (excluding finance lease obligations), based on contractual maturities, as of March 31, 2018 are as follows:

**Maturing in the year ending**

**March 31,<sup>(1)</sup>**

|            |           |
|------------|-----------|
| 2019       | Rs. -     |
| 2020       | 4,064     |
| 2021       | 6,346     |
| 2022       | 1,131     |
| 2023       | 13,035    |
| Thereafter | -         |
|            | Rs.24,576 |

(1) Long-term debt obligations disclosed in the above table do not reflect any netting of transactions costs of Rs.117.

Counter-party risk encompasses settlement risk on derivative contracts and credit risk on cash and term deposits (i.e., certificates of deposit). Exposure to these risks is closely monitored and kept within predetermined parameters. Our group treasury department does not expect any losses from non-performance by these counter-parties.

In respect of our interest rate swap, a 10% decrease/increase in the respective interest rates would have resulted in an approximately Rs.18/(20) million increase/(decrease) in our hedging reserve and an approximately Rs.2/(3) million increase/(decrease) in our net profit as at March 31, 2018.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

**A. Debt Securities.**

Not applicable.

**B. Warrants and Rights.**

Not applicable.

**C. Other Securities.**

Not applicable.

**D. American Depositary Shares.**

*Fees and Charges for Holders of American Depositary Shares*

J.P. Morgan Chase Bank, N.A., as the depository for our ADSs (the “Depository”), collects fees for the issuance and cancellation of ADSs from the holders of our ADSs, or intermediaries acting on their behalf, against the deposit or withdrawal of ordinary shares in the custodian account. The Depository also collects the following fees from holders of ADRs or intermediaries acting in their behalf:

| <b>Category (as defined by SEC)</b> | <b>Depository actions</b> | <b>Associated Fee</b> |
|-------------------------------------|---------------------------|-----------------------|
|-------------------------------------|---------------------------|-----------------------|

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|   |  |   |
|---|--|---|
| (a) Depositing or substituting the underlying shares                            | Issuing ADSs upon deposits of shares, including deposits and issuances in respect of share distributions, stock splits, rights, mergers, exchanges of securities or any other transaction or event or other distribution affecting the ADSs or the deposited shares.   | U.S.\$5.00 for each 100 ADSs (or portion thereof) evidenced by the new shares deposited.  |
| (b) Receiving or distributing dividends   | Distribution of dividends.   | U.S.\$0.02 or less per ADS (U.S.\$2.00 per 100 ADSs).<br>U.S.\$5.00 for each 100 ADSs (or portion thereof), the fee being in an amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities. |
| (c) Selling or exercising rights  | Distribution or sale of securities.  | U.S.\$5.00 for each 100 ADSs (or portion thereof) evidenced by the shares withdrawn.  |
| (d) Withdrawing an underlying security  | Acceptance of ADSs surrendered for withdrawal of deposited shares.   | U.S.\$1.50 per ADS.   |
| (e) Transferring, splitting or grouping receipts                                | Transfers, combining or grouping of depositary receipts.   | U.S.\$0.02 per ADS (or portion thereof) not more than once each calendar year.  |
| (f) General depositary services, particularly those charged on an annual basis. | Other services performed by the depositary in administering the ADSs.<br><br>Expenses incurred on behalf of holders in connection with:  |   |
|   | <ul style="list-style-type: none"> <li>· compliance with foreign exchange control regulations or any law or regulation relating to foreign investment;</li> <li>· the depositary's or its custodian's compliance with applicable law, rule or regulation;</li> </ul>   |   |
| (g) Other   | <ul style="list-style-type: none"> <li>· stock transfer or other taxes and other governmental charges;</li> <li>· cable, telex, facsimile transmission/delivery;</li> <li>· expenses of the depositary in connection with the conversion of foreign currency into U.S. dollars (which are paid out of such foreign currency); or</li> <li>· any other charge payable by depositary or its agents.</li> </ul> | The amount of such expenses incurred by the Depositary.   |

As provided in the Deposit Agreement, the Depositary may charge fees for making cash and other distributions to holders by deduction from distributable amounts or by selling a portion of the distributable property. The Depositary may generally refuse to provide services until its fees for those services are paid.

### *Fees paid by Depositary*

#### Direct Payments

The Depositary has agreed to reimburse certain reasonable expenses related to our ADS program and incurred by us in connection with the program. In the year ended March 31, 2018, the Depositary reimbursed us for an amount of U.S.\$583,276. The amounts the Depositary reimburses are not related to the fees collected by the Depositary from ADS holders. Under certain circumstances, including termination of our ADS program prior to May 11, 2022, we are required to repay to the Depositary amounts reimbursed in prior periods.

The table below sets forth the types of expenses that the Depositary has agreed to reimburse us for and the amounts reimbursed during the fiscal year ended March 31, 2018.

| Category of expenses   | Amount reimbursed during the year ended March 31, 2018 |
|--|--|
| Legal and accounting fees incurred in connection with preparation of Form 20-F and ongoing SEC compliance and listing requirements | U.S.\$ 583,276   |
| Listing fees   | None   |
| Investor relations   | None   |
| Advertising and public relations   | None   |
| Broker reimbursements  | None   |

#### Indirect Payments

As part of its service to us, the Depositary has agreed to waive fees for the standard costs associated with the administration of our ADS program, associated operating expenses and investor relations advice. The Depositary has not paid any expenses on our behalf.





PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

**Modification in the rights of security holders**

None.

**Use of Proceeds**

Not applicable.

## ITEM 15. CONTROLS AND PROCEDURES

### *(a) Disclosure Controls and Procedures*

As of the end of the period covered by this Annual Report on Form 20-F, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act).

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective, as of March 31, 2018, to provide reasonable assurance that the information required to be disclosed in filings and submissions under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified by the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions about required disclosure.

### *(b) Management's Annual Report on Internal Control Over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. As defined by the SEC, internal control over financial reporting is a process designed under the supervision of our principal executive and principal financial officers, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

Our internal control over financial reporting is supported by written policies and procedures, that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management conducted an assessment of the effectiveness of our internal control over financial reporting as of March 31, 2018 based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the “COSO Framework”). Based on this assessment, our management has concluded that our internal control over financial reporting was effective as of March 31, 2018.

The effectiveness of our internal control over financial reporting as of March 31, 2018 has been audited by KPMG, the independent registered public accounting firm that audited our financial statements, as stated in their report, a copy of which is included in this annual report on Form 20-F.

/s/G.V. Prasad

/s/Saumen Chakraborty

Co-Chairman and Chief Executive Officer

President and Chief Financial Officer

*(c) Attestation Report of the Registered Public Accounting Firm.*

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors  
Dr. Reddy's Laboratories Limited

Opinion on Internal Control Over Financial Reporting

We have audited Dr. Reddy's Laboratories Limited, its subsidiaries and joint ventures (the Company) internal control over financial reporting as of March 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial position of the Company as of March 31, 2018 and 2017, the related consolidated income statements, statements of comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended March 31, 2018, and the related notes (collectively, the "consolidated financial statements"), and our report dated June 15, 2018 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

*Definition and Limitations of Internal Control Over Financial Reporting*

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS). A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS) , and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

KPMG

Hyderabad, Telangana  
June 15, 2018

*(d) Changes in internal control over financial reporting*

There were no changes to our internal control over financial reporting that occurred during the period covered by this Form 20-F that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. [RESERVED]

ITEM 16.A. AUDIT COMMITTEE FINANCIAL EXPERT

The Audit Committee of our Board of Directors is entirely composed of independent directors and brings in expertise in the fields of finance, economics, human resource development, strategy and management. Please see “Item 6. Directors, Senior Management and Employees” for the experience and qualifications of the members of the Audit Committee of our Board of Directors. Our Board of Directors has determined that Mr. Sridar Iyengar is an audit committee financial expert, as defined in Item 401(h) of Regulation S-K, and is independent pursuant to applicable NYSE rules.

ITEM 16.B. CODE OF ETHICS

We have adopted a Code of Business Conduct and Ethics (the “CoBE”), which applies to all Directors and employees of our company and its subsidiaries and affiliates. The CoBE is available on our corporate website at <http://www.drreddys.com/investors/governance/code-of-business-conduct-and-ethics-cobe/>. The CoBE has provisions for employees and other stakeholders to raise concerns regarding possible violations of the CoBE to the Chief Compliance Officer or the Chief Ombudsperson. Further, our Ombudsperson Policy includes certain safeguards relating to non-retaliation in order to protect persons who raise concerns in good faith.

ITEM 16.C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth for the years ended March 31, 2018 and 2017, the fees paid to our principal accountant and its associated entities for various services they provided us in these periods.

| Type of Service    | For the year ended March 31, |           | Description of Services                                  |
|--------------------|------------------------------|-----------|--|
|                    | 2018                         | 2017      |  |
|                    | (Rs. in millions)            |           |  |
| Audit fees         | Rs. 33.00                    | Rs. 67.83 | Audit and review of financial statements                 |
| Audit related fees | -                            | -         |  |
| Tax fees           | 9.15                         | 5.13      | Tax returns filing and transfer pricing related services |
| All other fees     | -                            | 3.47      | Statutory certifications and other matters.              |
| Total              | Rs. 42.15                    | Rs. 76.43 |  |

In accordance with the requirement of the charter of the Audit Committee of our Board of Directors, we obtain the prior approval of the Audit Committee on every occasion we engage our principal accountants or their associated entities to provide us any non-audit services. We disclose to the Audit Committee of our Board of Directors the nature of services that are provided and the fees to be paid for the services. The fees listed in the above table as “Tax fees” and “All other fees” were approved by the Audit Committee of our Board of Directors.

#### ITEM 16.D. EXEMPTION FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

We have not sought any exemption from the listing standards for audit committees applicable to us as a foreign private issuer.

#### ITEM 16.E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

During the year ended March 31, 2018, there was no purchase made by or on behalf of us or any affiliated purchaser of shares of any class of our securities that are registered by us pursuant to Section 12 of the Exchange Act.

#### ITEM 16.F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Based on the recommendation of our Audit Committee, our Board of Directors, on June 15, 2018, approved the appointment of Ernst & Young Associates LLP ("E&Y") as our independent registered public accounting firm for U.S. reporting purposes for the year ending March 31, 2019. This appointment is effective as of June 15, 2018, and E&Y has accepted the engagement.

E&Y will audit our annual financial statements to be included in our Annual Report on Form 20-F for the year ending March 31, 2019 filed with the SEC. KPMG was our independent registered public accounting firm through the completion of the audit for the year ended March 31, 2018 and for the purpose of filing such audited financial statements in this Form 20-F for the year ended March 31, 2018 which was filed on June 15, 2018.

In addition, in accordance with disclosure requirements under SEC regulations, the following may be noted:

During the two fiscal years ended March 31, 2018 and March 31, 2017, KPMG has not issued any report on the financial statements that contained an adverse opinion or disclaimer of opinion, nor were the reports of KPMG qualified or modified as to uncertainty, audit scope or accounting principles; and

During the two fiscal years ended March 31, 2018 and March 31, 2017 and through June 15, 2018, (i) there was no disagreement with KPMG on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures that, if not resolved to the satisfaction of KPMG, would have caused them to make reference to the subject matter of the disagreement in connection with its audit reports on our consolidated financial statements for the two fiscal years ended March 31, 2018 and March 31, 2017, and (ii) there was no "reportable event" as described in Item 16F(a)(1)(v) of Form 20-F.

During the two fiscal years ended March 31, 2018 and March 31, 2017 and through June 15, 2018, we did not consult with E&Y for any matters regarding either:



- (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered with respect to our consolidated financial statements; or
- (ii) any matter that was the subject of a disagreement as defined in Item 16F(a)(1)(iv) of Form 20-F and the related instructions to this Item or a “reportable event” as described in Item 16F (a)(1)(v) of Form 20-F.

We have provided KPMG with a copy of the disclosures given above and requested that KPMG furnish us with a letter addressed to the Commission stating whether it agrees with such disclosures and, if not, stating the respects in which it does not agree. A copy of the letter dated June 15, 2018 from KPMG is filed as Exhibit 15.2 to this Annual Report on Form 20-F.

#### ITEM 16.G. CORPORATE GOVERNANCE

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

- (i) establish an independent audit committee that has specified responsibilities;
- (ii) provide prompt certification by its chief executive officer of any non-compliance with any corporate governance rules;
- (iii) provide periodic written affirmations to the NYSE with respect to its corporate governance practices; and
- (iv) provide a brief description of significant differences between its corporate governance practices and those followed by U.S. companies.

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

**Standard for U.S. NYSE Listed Companies**

Listed companies must have a majority of “independent directors,” as defined by the NYSE.

The non-management directors of each listed company must meet at regularly scheduled executive sessions without management.

Listed companies must have a nominating/corporate governance committee composed entirely of independent directors. The nominating/corporate governance committee must have a written charter that is made available on the listed company’s website and that addresses the committee’s purpose and responsibilities, subject to the minimum purpose and responsibilities established by the NYSE, and an annual evaluation of the committee.

Listed companies must have a compensation committee composed entirely of independent directors. The compensation committee must have a written charter that is made available on the listed company’s website and that addresses the committee’s purpose and responsibilities, subject to the minimum purpose and responsibilities established by the NYSE, and an annual evaluation of the committee.

Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act.

The audit committee must have a minimum of three members all being independent directors. The audit committee must have a written charter that is made available on the listed company’s website and that addresses the committee’s purpose and responsibilities, subject to the minimum purpose and responsibilities established by the NYSE, and an annual evaluation of the committee.

Each listed company must have an internal audit function. Shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions thereto, with limited exceptions.

Listed companies must adopt and disclose corporate governance guidelines.

All listed companies, U.S. and foreign, must adopt and disclose a code of business conduct and ethics for directors, officers and employees that is made available on the listed company’s website and, and promptly disclose any waivers of the code for directors or executive officers.

**Our practice**

We comply with this standard. Eight of our ten directors are “independent directors,” as defined by the NYSE.

We comply with this standard. Our non-management directors meet periodically without management directors in scheduled executive sessions.

We have a Nomination, Governance and Compensation Committee composed entirely of independent directors that meets these requirements. The committee has a written charter that meets these requirements. We have evaluated the performance of the Nomination, Governance and Compensation Committee.

We have a Nomination, Governance and Compensation Committee composed entirely of independent directors that meets these requirements. The committee has a written charter that meets these requirements. We have evaluated the performance of our Nomination, Governance and Compensation Committee. Our Audit Committee satisfies the requirements of Rule 10A-3 under the Exchange Act.

We have an Audit Committee composed of three members, all being independent directors. The committee has a written charter that meets these requirements. We also have an internal audit function. We have evaluated the performance of our Audit Committee.

We have an internal audit function. We comply with this standard. Our Employee Stock Option Plans were approved by our shareholders.

We have not adopted corporate governance guidelines.

We comply with this standard. More details on our Code of Business Conduct and Ethics are given under Item 16.B.

Listed companies must solicit proxies for all meetings of shareholders.

We do not solicit proxies because we are prohibited from doing so under Section 105 of the Indian Companies Act, 2013. However, we give each of our shareholders written notices of all of our shareholder meetings.

Listed foreign private issuers must disclose any significant ways in which their corporate governance practices differ from those followed by domestic companies under NYSE listing standards.

This requirement is being addressed by way of this table.

Each listed company CEO must certify to the NYSE each year that he or she is not aware of any violation by the company of NYSE corporate governance listing standards, qualifying the certification to the extent necessary.

We do not have such a practice.

**Standard for U.S. NYSE Listed Companies**

Each listed company CEO must promptly notify the NYSE in writing after any executive officer of the listed company becomes aware of any non-compliance with any applicable provisions of this Section 303A.

Each listed company must submit an executed Written Affirmation annually to the NYSE. In addition, each listed company must submit an interim Written Affirmation each time that any of the following occurs:

- an audit committee member who was deemed independent is no longer independent;
- a member has been added to the audit committee;
- the listed company or a member of its audit committee is eligible to rely on and is choosing to rely on a Securities Exchange Act Rule 10A-3 (“Rule 10A-3”) exemption;
- the listed company or a member of its audit committee is no longer eligible to rely on or is choosing to no longer rely on a previously applicable Rule 10A-3 exemption;
- a member has been removed from the listed company’s audit committee resulting in the company no longer having a Rule 10A-3 compliant audit committee; or
- the listed company determined that it no longer qualifies as a foreign private issuer and will be considered a domestic company under Section 303A.

The annual and interim Written Affirmations must be in the form specified by the NYSE.

**Our practice**

There have been no such instances.

We filed our most recent annual written affirmation, in the form specified by NYSE, on June 23, 2017.

**ITEM 16.H. MINE SAFETY DISCLOSURE**

Not Applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

The following financial statement and auditor's report for the year ended March 31, 2018 are incorporated herein by reference and are included in this Item 18 of this report on Form 20-F:

|   |              |
|---|--------------|
| • <u>Report of Independent Registered Public Accounting Firm</u>  | <u>F - 1</u> |
| • <u>Consolidated statement of financial position as of March 31, 2018 and 2017</u>                       | <u>F - 2</u> |
| • <u>Consolidated income statement for the years ended March 31, 2018, 2017 and 2016</u>                  | <u>F - 3</u> |
| • <u>Consolidated statement of comprehensive income for the years ended March 31, 2018, 2017 and 2016</u> | <u>F - 4</u> |
| • <u>Consolidated statement of changes in equity for the years ended March 31, 2018, 2017 and 2016</u>    | <u>F - 5</u> |
| • <u>Consolidated statement of cash flows for the years ended March 31, 2018, 2017 and 2016</u>           | <u>F - 7</u> |
| • <u>Notes to the consolidated financial statements</u>   | <u>F - 8</u> |

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors  
Dr. Reddy's Laboratories Limited

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial position of Dr. Reddy's Laboratories Limited, its subsidiaries and joint ventures (the Company) as of March 31, 2018 and 2017, the related consolidated income statements, statements of comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended March 31, 2018, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2018 and 2017, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2018, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of March 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 15, 2018 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

*Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of

material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2001.

KPMG

Hyderabad, Telangana  
June 15, 2018

F-1

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****(in millions, except share and per share data)**

| Particulars                              | Note | As of<br>March 31,<br>2018<br>Unaudited<br>convenience<br>translation<br>into U.S.\$<br>(See Note<br>2(d)) | March 31, 2018     | March 31, 2017     |
|--|------|--|--------------------|--------------------|
| <b>ASSETS</b>                            |      |  |                    |                    |
| Current assets                           |      |  |                    |                    |
| Cash and cash equivalents                | 14   | U.S.\$41   | Rs. 2,638          | Rs. 3,866          |
| Other investments                        | 10   | 282  | 18,330             | 14,270             |
| Trade and other receivables              | 12   | 624  | 40,617             | 38,065             |
| Inventories                              | 11   | 447  | 29,089             | 28,529             |
| Derivative financial instruments         | 29   | 2  | 103                | 262                |
| Current tax assets                       |      | 70   | 4,567              | 3,413              |
| Other current assets                     | 13   | 220  | 14,301             | 11,970             |
| Total current assets                     |      | <b>U.S.\$1,684</b>   | <b>Rs. 109,645</b> | <b>Rs. 100,375</b> |
| Non-current assets                       |      |  |                    |                    |
| Property, plant and equipment            | 6    | U.S.\$889  | Rs. 57,869         | Rs. 57,160         |
| Goodwill                                 | 7    | 61   | 3,945              | 3,752              |
| Other intangible assets                  | 8    | 686  | 44,665             | 44,925             |
| Trade and other receivables              | 12   | 3  | 169                | 206                |
| Investment in equity accounted investees |      | 32   | 2,104              | 1,603              |
| Other investments                        | 10   | 39   | 2,549              | 5,237              |
| Deferred tax assets                      | 26   | 56   | 3,628              | 5,580              |
| Other non-current assets                 | 13   | 16   | 1,030              | 983                |
| Total non-current assets                 |      | <b>U.S.\$1,781</b>   | <b>Rs. 115,959</b> | <b>Rs. 119,446</b> |
| Total assets                             |      | <b>U.S.\$3,465</b>   | <b>Rs. 225,604</b> | <b>Rs. 219,821</b> |
| <b>LIABILITIES AND EQUITY</b>            |      |  |                    |                    |
| Current liabilities                      |      |  |                    |                    |
| Trade and other payables                 | 21   | U.S.\$247  | Rs. 16,052         | Rs. 13,417         |
| Short-term borrowings                    | 17   | 391  | 25,466             | 43,539             |
| Long-term borrowings, current portion    | 17   | 1  | 63                 | 110                |
| Provisions                               | 20   | 57   | 3,732              | 4,509              |
| Current tax liabilities                  |      | 23   | 1,530              | 1,483              |
| Derivative financial instruments         | 29   | 1  | 85                 | 10                 |
| Bank overdraft                           | 14   | 1  | 96                 | 87                 |



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|   |    |                    |             |             |
|---|----|--------------------|-------------|-------------|
| Other current liabilities                       | 22 | 348                | 22,668      | 21,845      |
| Total current liabilities                       |    | <b>U.S.\$1,070</b> | Rs. 69,692  | Rs. 85,000  |
| Non-current liabilities                         |    |                    |             |             |
| Long-term borrowings, excluding current portion | 17 | U.S.\$385          | Rs. 25,089  | Rs. 5,449   |
| Deferred tax liabilities                        | 26 | 11                 | 730         | 1,204       |
| Provisions                                      | 20 | 1                  | 53          | 47          |
| Other non-current liabilities                   | 22 | 55                 | 3,580       | 4,077       |
| Total non-current liabilities                   |    | <b>U.S.\$452</b>   | Rs. 29,452  | Rs. 10,777  |
| Total liabilities                               |    | <b>U.S.\$1,523</b> | Rs. 99,144  | Rs. 95,777  |
| Equity  |    |                    |             |             |
| Share capital                                   | 15 | U.S.\$13           | Rs. 830     | Rs. 829     |
| Share premium                                   |    | 120                | 7,790       | 7,359       |
| Share-based payment reserve                     |    | 16                 | 1,021       | 998         |
| Capital redemption reserve                      |    | 3                  | 173         | 173         |
| Retained earnings                               |    | 1,749              | 113,865     | 108,051     |
| Other components of equity                      |    | 43                 | 2,781       | 6,634       |
| Total equity                                    |    | <b>U.S.\$1,942</b> | Rs. 126,460 | Rs. 124,044 |
| Total liabilities and equity                    |    | <b>U.S.\$3,465</b> | Rs. 225,604 | Rs. 219,821 |

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

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****CONSOLIDATED INCOME STATEMENTS****(in millions, except share and per share data)**

| Particulars  | Note | For the Years Ended March 31,  |                    |                    |                    |
|--|------|--|--------------------|--------------------|--------------------|
|  |      | 2018   | 2018               | 2017               | 2016               |
|  |      | Unaudited<br>convenience<br>translation<br>into U.S.\$<br>(See Note<br>2(d)) |                    |                    |                    |
| Revenues   | 23   | <b>U.S.\$2,181</b>   | <b>Rs. 142,028</b> | <b>Rs. 140,809</b> | <b>Rs. 154,708</b> |
| Cost of revenues   |      | 1,009  | 65,724             | 62,453             | 62,427             |
| Gross profit   |      | 1,172  | 76,304             | 78,356             | 92,281             |
| Selling, general and administrative expenses                                   |      | 720  | 46,910             | 46,372             | 45,702             |
| Research and development expenses  |      | 281  | 18,265             | 19,551             | 17,834             |
| Other (income)/expense, net  | 24   | (12 )  | (788 )             | (1,065 )           | (874 )             |
| Total operating expenses   |      | 989  | 64,387             | 64,858             | 62,662             |
| Results from operating activities (A)  |      | 183  | 11,917             | 13,498             | 29,619             |
| Finance income   |      | 44   | 2,897              | 1,587              | 2,251              |
| Finance expense  |      | (13 )  | (817 )             | (781 )             | (4,959 )           |
| Finance (expense)/income, net (B)  | 25   | 32   | 2,080              | 806                | (2,708 )           |
| Share of profit of equity accounted investees, net of tax (C)                  |      | 5  | 344                | 349                | 229                |
| Profit before tax [(A)+(B)+(C)]  |      | 220  | 14,341             | 14,653             | 27,140             |
| Tax expense  | 26   | 70   | 4,535              | 2,614              | 7,127              |
| Profit for the year  |      | 151  | 9,806              | 12,039             | 20,013             |
| Attributable to:   |      |  |                    |                    |                    |
| Equity holders of the Company  |      | 151  | 9,806              | 12,039             | 20,013             |
| Non-controlling interest   |      | -  | -                  | -                  | -                  |
| Profit for the year  |      | <b>U.S.\$151</b>   | <b>Rs. 9,806</b>   | <b>Rs. 12,039</b>  | <b>Rs. 20,013</b>  |
| Earnings per share:  | 16   |  |                    |                    |                    |
| Basic earnings per share of Rs.5/- each  |      | U.S.\$0.91   | Rs. 59.13          | Rs. 72.24          | Rs. 117.34         |
| Diluted earnings per share of Rs.5/- each                                      |      | U.S.\$0.91   | Rs. 59.00          | Rs. 72.09          | Rs. 116.98         |
| Weighted average number of equity shares used in computing earnings per share: | 16   |  |                    |                    |                    |
| Basic  |      |  | 165,845,408        | 166,648,943        | 170,547,643        |
| Diluted  |      |  | 166,185,552        | 166,997,675        | 171,072,780        |

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

F-3

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(in millions, except share and per share data)**

| Particulars   | For the Years Ended March 31,                                 |                   |                  |                  |
|---|---|-------------------|------------------|------------------|
|   | 2018  | 2018              | 2017             | 2016             |
|   | Unaudited convenience translation into U.S.\$ (See Note 2(d)) |                   |                  |                  |
| Profit for the year   | U.S.\$151   | <b>Rs.9,806</b>   | <b>Rs.12,039</b> | <b>Rs.20,013</b> |
| Other comprehensive income/(loss)   |   |                   |                  |                  |
| Items that will not be reclassified to the consolidated income statement:                 |   |                   |                  |                  |
| Actuarial gains/(losses) on post-employment benefit obligations                           | U.S.\$1   | Rs. 39            | Rs. (39 )        | Rs. (185 )       |
| Tax on items that will not be reclassified to the consolidated income statement           | 0   | (12 )             | 14               | 64               |
| Total of items that will not be reclassified to the consolidated income statement         | U.S.\$0   | <b>Rs.27</b>      | <b>Rs.(25 )</b>  | <b>Rs.(121 )</b> |
| Items that may be reclassified subsequently to the consolidated income statement:         |   |                   |                  |                  |
| Changes in fair value of available for sale financial instruments                         | U.S.\$(79 )   | Rs. (5,160)       | Rs. 2,209        | Rs. (19 )        |
| Foreign currency translation adjustments  | (1 )  | (32 )             | (339 )           | 31               |
| Effective portion of changes in fair value of cash flow hedges, net                       | (1 )  | (82 )             | 968              | 966              |
| Tax on items that may be reclassified subsequently to the consolidated income statement   | 21  | 1,394             | (411 )           | (173 )           |
| Total of items that may be reclassified subsequently to the consolidated income statement | U.S.\$(60 )   | <b>Rs.(3,880)</b> | <b>Rs.2,427</b>  | <b>Rs.805</b>    |
| Other comprehensive income/(loss) for the year, net of tax                                | U.S.\$(59)  | <b>Rs.(3,853)</b> | <b>Rs.2,402</b>  | <b>Rs.684</b>    |
| Total comprehensive income for the year   | U.S.\$91  | <b>Rs.5,953</b>   | <b>Rs.14,441</b> | <b>Rs.20,697</b> |
| Attributable to:  |   |                   |                  |                  |
| Equity holders of the Company   | 91  | 5,953             | 14,441           | 20,697           |
| Non-controlling interest  | -   | -                 | -                | -                |
| Total comprehensive income for the year   | U.S.\$91  | <b>Rs.5,953</b>   | <b>Rs.14,441</b> | <b>Rs.20,697</b> |

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

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY****(in millions, except share and per share data)**

| Particulars  | Share capital | Share premium | Share based payment reserve | Fair value reserve | Foreign currency translation reserve | Hedging reserve | Capital redemption reserve | Actuarial gains/ (losses) |
|--|---------------|---------------|-----------------------------|--------------------|--------------------------------------|-----------------|----------------------------|---------------------------|
| Balance as of April 1, 2017 (A)  | Rs. 829       | Rs. 7,359     | Rs. 998                     | Rs. 2,744          | Rs. 4,233                            | Rs. 86          | Rs. 173                    | Rs. (42)                  |
| Total comprehensive income   |               |               |                             |                    |                                      |                 |                            |                           |
| Profit for the year  | Rs. -         | Rs. -         | Rs. -                       | Rs. -              | Rs. -                                | Rs. -           | Rs. -                      | Rs. -                     |
| Net change in fair value of available for sale financial instruments, net of tax benefit of Rs.1,370 | -             | -             | -                           | (3,790)            | -                                    | -               | -                          | -                         |
| Foreign currency translation adjustments, net of tax expense of Rs.17                                | -             | -             | -                           | -                  | (49 )                                | -               | -                          | -                         |
| Effective portion of changes in fair value of cash flow hedges, net of tax benefit of Rs.41          | -             | -             | -                           | -                  | -                                    | (41 )           | -                          | -                         |
| Actuarial gain/(loss) on post-employment benefit obligations, net of tax expense of Rs.12            | -             | -             | -                           | -                  | -                                    | -               | -                          | 27                        |
| Total comprehensive income (B)   | Rs. -         | Rs. -         | Rs. -                       | Rs. (3,790)        | Rs. (49 )                            | Rs. (41 )       | Rs. -                      | Rs. 27                    |
| Transactions with owners of the  |               |               |                             |                    |                                      |                 |                            |                           |

|  |           |            |            |              |           |           |          |            |            |            |
|--|-----------|------------|------------|--------------|-----------|-----------|----------|------------|------------|------------|
| Company Contributions and distributions  |           |            |            |              |           |           |          |            |            |            |
| Issue of equity shares on exercise of options  | Rs. 1     | Rs. 431    | Rs. (431 ) | Rs. -        | Rs. -     | Rs. -     | Rs. -    | Rs. -      | Rs. -      | Rs. -      |
| Share-based payment expense  | -         | -          | 454        | -            | -         | -         | -        | -          | -          | -          |
| Dividend paid (including corporate dividend tax)   | -         | -          | -          | -            | -         | -         | -        | -          | -          | -          |
| Total contributions and distributions  | Rs. 1     | Rs. 431    | Rs. 23     | Rs. -        | Rs. -     | Rs. -     | Rs. -    | Rs. -      | Rs. -      | Rs. -      |
| Changes in ownership interests   | Rs. -     | Rs. -      | Rs. -      | Rs. -        | Rs. -     | Rs. -     | Rs. -    | Rs. -      | Rs. -      | Rs. -      |
| Total transactions with owners of the Company (C)  | Rs. 1     | Rs. 431    | Rs. 23     | Rs. -        | Rs. -     | Rs. -     | Rs. -    | Rs. -      | Rs. -      | Rs. -      |
| Balance as of March 31, 2018 [(A)+(B)+(C)]   | Rs. 830   | Rs. 7,790  | Rs. 1,021  | Rs. (1,046)  | Rs. 4,184 | Rs. 45    | Rs. 173  | Rs. (40)   | Rs. (40)   | Rs. (40)   |
| Convenience translation into U.S.\$ (See note 2(d))  | U.S.\$ 13 | U.S.\$ 120 | U.S.\$ 16  | U.S.\$ (16 ) | U.S.\$ 64 | U.S.\$ 1  | U.S.\$ 3 | U.S.\$ (6) | U.S.\$ (6) | U.S.\$ (6) |
| Balance as of April 1, 2016 (D)  | Rs. 853   | Rs. 22,601 | Rs. 1,100  | Rs. 1,034    | Rs. 4,424 | Rs. (822) | Rs. 148  | Rs. (40)   | Rs. (40)   | Rs. (40)   |
| Total comprehensive income   |           |            |            |              |           |           |          |            |            |            |
| Profit for the year  | Rs. -     | Rs. -      | Rs. -      | Rs. -        | Rs. -     | Rs. -     | Rs. -    | Rs. -      | Rs. -      | Rs. -      |
| Net change in fair value of available for sale financial instruments, net of tax expense of Rs.499 | -         | -          | -          | 1,710        | -         | -         | -        | -          | -          | -          |
| Foreign currency translation adjustments, net of tax benefit of Rs.148                             | -         | -          | -          | -            | (191 )    | -         | -        | -          | -          | -          |
| Effective portion of changes in fair value of cash flow hedges, net of tax expense of              | -         | -          | -          | -            | -         | 908       | -        | -          | -          | -          |

Rs.60

 Actuarial  
 gain/(loss) on  
 post-employment  
 benefit  
 obligations, net of  
 tax benefit of

- - - - - (25)

Rs.14

 Total  
 comprehensive  
 income (E)

 Transactions with  
 owners of the  
 Company  
 Contributions and  
 distributions

 Issue of equity  
 shares on exercise  
 of options

 Buyback of  
 equity shares<sup>(1)</sup>

 Share-based  
 payment expense

 Dividend paid  
 (including  
 corporate  
 dividend tax)

 Transfer to capital  
 redemption  
 reserve

 Total  
 contributions and  
 distributions

 Changes in  
 ownership  
 interests

 Total transactions  
 with owners of  
 the Company (F)

 Balance as of  
 March 31, 2017  
 [(D)+(E)+(F)]

|  |     |       |     |          |     |        |     |       |     |        |     |     |     |     |     |      |
|--|-----|-------|-----|----------|-----|--------|-----|-------|-----|--------|-----|-----|-----|-----|-----|------|
|  | Rs. | -     | Rs. | -        | Rs. | -      | Rs. | 1,710 | Rs. | (191 ) | Rs. | 908 | Rs. | -   | Rs. | (25) |
|  | Rs. | 1     | Rs. | 452      | Rs. | (452 ) | Rs. | -     | Rs. | -      | Rs. | -   | Rs. | -   | Rs. | -    |
|  |     | (25 ) |     | (15,669) |     | -      |     | -     |     | -      |     | -   |     | -   |     | -    |
|  |     | -     |     | -        |     | 350    |     | -     |     | -      |     | -   |     | -   |     | -    |
|  |     | -     |     | -        |     | -      |     | -     |     | -      |     | -   |     | -   |     | -    |
|  |     | -     |     | (25 )    |     | -      |     | -     |     | -      |     | -   |     | 25  |     | -    |
|  | Rs. | (24 ) | Rs. | (15,242) | Rs. | (102 ) | Rs. | -     | Rs. | -      | Rs. | -   | Rs. | 25  | Rs. | -    |
|  | Rs. | -     | Rs. | -        | Rs. | -      | Rs. | -     | Rs. | -      | Rs. | -   | Rs. | -   | Rs. | -    |
|  | Rs. | (24 ) | Rs. | (15,242) | Rs. | (102 ) | Rs. | -     | Rs. | -      | Rs. | -   | Rs. | 25  | Rs. | -    |
|  | Rs. | 829   | Rs. | 7,359    | Rs. | 998    | Rs. | 2,744 | Rs. | 4,233  | Rs. | 86  | Rs. | 173 | Rs. | (42) |

[Continued on next page]

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

F-5



**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(in millions, except share and per share data)

[Continued from above table, first column repeated]

| Particulars   | Share capital | Share premium | Share based payment reserve | Fair value reserve | Foreign currency translation reserve | Hedging reserve | Capital redemption reserve | Actuarial gains/ (losses) | Retained earnings | Total      |
|---|---------------|---------------|-----------------------------|--------------------|--------------------------------------|-----------------|----------------------------|---------------------------|-------------------|------------|
| Balance as of April 1, 2015 (G)   | Rs. 852       | Rs. 22,178    | Rs. 1,081                   | Rs. 1,141          | Rs. 4,455                            | Rs. (1,765)     | Rs. 148                    | Rs. (283)                 | Rs. 83,495        | Rs. 111,3  |
| Total comprehensive income  |               |               |                             |                    |                                      |                 |                            |                           |                   |            |
| Profit for the year   | Rs. -         | Rs. -         | Rs. -                       | Rs. -              | Rs. -                                | Rs. -           | Rs. -                      | Rs. -                     | Rs. 20,013        | Rs. 20,013 |
| Net change in fair value of available for sale financial instruments, net of tax expense of Rs.88 | -             | -             | -                           | (107 )             | -                                    | -               | -                          | -                         | -                 | (107 )     |
| Foreign currency translation adjustments, net of tax expense of Rs.62                             | -             | -             | -                           | -                  | (31 )                                | -               | -                          | -                         | -                 | (31 )      |
| Effective portion of changes in fair value of cash flow hedges, net of tax expense of Rs.23       | -             | -             | -                           | -                  | -                                    | 943             | -                          | -                         | -                 | 943        |
| Actuarial gain/(loss) on post-employment benefit obligations, net of tax benefit of Rs.64         | -             | -             | -                           | -                  | -                                    | -               | -                          | (121)                     | -                 | (121)      |
|   | Rs. -         | Rs. -         | Rs. -                       | Rs. (107 )         | Rs. (31 )                            | Rs. 943         | Rs. -                      | Rs. (121)                 | Rs. 20,013        | Rs. 20,69  |

|   |         |            |            |           |           |            |         |           |            |              |              |
|---|---------|------------|------------|-----------|-----------|------------|---------|-----------|------------|--------------|--------------|
| Total comprehensive income (H)                    |         |            |            |           |           |            |         |           |            |              |              |
| Transactions with owners of the Company           |         |            |            |           |           |            |         |           |            |              |              |
| Contributions and distributions                   |         |            |            |           |           |            |         |           |            |              |              |
| Issue of equity shares on exercise of options     | Rs. 1   | Rs. 423    | Rs. (423 ) | Rs. -     | Rs. -     | Rs. -      | Rs. -   | Rs. -     | Rs. -      | Rs. -        | Rs. 1        |
| Share-based payment expense                       | -       | -          | 442        | -         | -         | -          | -       | -         | -          | -            | 442          |
| Dividend paid (including corporate dividend tax)  | -       | -          | -          | -         | -         | -          | -       | -         | -          | (4,106 )     | (4,106 )     |
| Total contributions and distributions             | Rs. 1   | Rs. 423    | Rs. 19     | Rs. -     | Rs. -     | Rs. -      | Rs. -   | Rs. -     | Rs. -      | Rs. (4,106 ) | Rs. (3,666 ) |
| Changes in ownership interests                    | Rs. -   | Rs. -      | Rs. -      | Rs. -     | Rs. -     | Rs. -      | Rs. -   | Rs. -     | Rs. -      | Rs. -        | Rs. -        |
| Total transactions with owners of the Company (I) | Rs. 1   | Rs. 423    | Rs. 19     | Rs. -     | Rs. -     | Rs. -      | Rs. -   | Rs. -     | Rs. -      | Rs. (4,106 ) | Rs. (3,666 ) |
| Balance as of March 31, 2016 [(G)+(H)+(I)]        | Rs. 853 | Rs. 22,601 | Rs. 1,100  | Rs. 1,034 | Rs. 4,424 | Rs. (822 ) | Rs. 148 | Rs. (404) | Rs. 99,402 | Rs. 99,402   | Rs. 128,300  |

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

(1) Refer to Note 15 of these consolidated financial statements.

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(in millions, except share and per share data)**

| Particulars   | <b>For the Years Ended March 31,</b>                          |                   |                   |                   |
|---|---|-------------------|-------------------|-------------------|
|   | 2018  | 2018              | 2017              | 2016              |
|   | Unaudited convenience translation into U.S.\$ (See Note 2(d)) |                   |                   |                   |
| Cash flows from/(used in) operating activities:   |   |                   |                   |                   |
| Profit for the year   | U.S.\$ 151  | Rs. 9,806         | Rs. 12,039        | Rs. 20,013        |
| Adjustments for:  |   |                   |                   |                   |
| Income tax expense  | 70  | 4,535             | 2,614             | 7,127             |
| Dividend and profit on sale of investments  | (35 )   | (2,270 )          | (956 )            | (852 )            |
| Depreciation and amortization   | 180   | 11,710            | 11,277            | 10,250            |
| Impairment loss on property, plant and equipment and other intangible assets            | 1   | 53                | 445               | 288               |
| Inventory write-downs   | 45  | 2,946             | 3,085             | 2,746             |
| Allowance for doubtful trade and other receivables                                      | 2   | 155               | 138               | 137               |
| Loss/(profit) on sale of property, plant and equipment and other intangible assets, net | 1   | 55                | 80                | 112               |
| Allowance for sales returns   | 41  | 2,702             | 3,177             | 3,272             |
| Share of profit of equity accounted investees   | (5 )  | (344 )            | (349 )            | (229 )            |
| Exchange (gain)/loss, net   | (5 )  | (325 )            | 568               | 1,066             |
| Exchange loss related to Venezuela operations   | 0   | 29                | 41                | 4,621             |
| Interest (income)/expense, net  | 4   | 248               | 76                | (573 )            |
| Equity settled share-based payment expense  | 7   | 454               | 350               | 442               |
| Changes in operating assets and liabilities:  |   |                   |                   |                   |
| Trade and other receivables   | (32 )   | (2,097 )          | 3,037             | 833               |
| Inventories   | (50 )   | (3,233 )          | (6,325 )          | (2,522 )          |
| Trade and other payables  | 38  | 2,501             | 1,886             | 746               |
| Other assets and other liabilities  | (94 )   | (6,135 )          | (3,900 )          | 784               |
| Cash generated from operations  | 319   | 20,790            | 27,283            | 48,261            |
| Income tax paid   | (42 )   | (2,761 )          | (5,770 )          | (7,014 )          |
| Net cash from operating activities  | <b>U.S.\$ 277</b>   | <b>Rs. 18,029</b> | <b>Rs. 21,513</b> | <b>Rs. 41,247</b> |
| Cash flows from/(used in) investing activities:   |   |                   |                   |                   |
| Expenditures on property, plant and equipment   | U.S.\$ (143 )   | Rs. (9,291 )      | Rs. (12,278)      | Rs. (12,017)      |
| Proceeds from sale of property, plant and equipment                                     | 2   | 139               | 44                | 84                |
| Expenditures on other intangible assets   | (27 )   | (1,752 )          | (28,706)          | (2,858 )          |
| Investment in equity accounted investees  | -   | -                 | (86 )             | -                 |

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|  |                     |                    |                    |                    |
|--|---------------------|--------------------|--------------------|--------------------|
| Purchase of other investments  | (1,051)             | (68,429)           | (49,651)           | (68,249)           |
| Proceeds from sale of other investments  | 984                 | 64,038             | 71,595             | 69,270             |
| Cash paid for acquisition of business, net of cash acquired  | -                   | -                  | (17 )              | (7,936 )           |
| Interest and dividend received   | 6                   | 412                | 628                | 1,283              |
| Net cash used in investing activities  | <b>U.S.\$(229 )</b> | <b>Rs.(14,883)</b> | <b>Rs.(18,471)</b> | <b>Rs.(20,423)</b> |
| Cash flows from/(used in) financing activities:  |                     |                    |                    |                    |
| Proceeds from issuance of equity shares  | U.S.\$0             | Rs.1               | Rs.1               | Rs.1               |
| Buyback of equity shares   | -                   | -                  | (15,694)           | -                  |
| Proceeds from/(repayment of) short term borrowings, net  | (277 )              | (18,025)           | 21,536             | (273 )             |
| Proceeds from/(repayment of) long term borrowings, net   | 290                 | 18,907             | (5,220 )           | (11,706)           |
| Dividend paid (including corporate dividend tax)   | (61 )               | (3,992 )           | (3,390 )           | (4,106 )           |
| Interest paid  | (20 )               | (1,331 )           | (925 )             | (917 )             |
| Net cash used in financing activities  | <b>U.S.\$(68 )</b>  | <b>Rs.(4,440 )</b> | <b>Rs.(3,692 )</b> | <b>Rs.(17,001)</b> |
| Net increase/(decrease) in cash and cash equivalents   | (20 )               | (1,294 )           | (650 )             | 3,823              |
| Effect of exchange rate changes on cash and cash equivalents   | 1                   | 57                 | (492 )             | (4,296 )           |
| Cash and cash equivalents at the beginning of the year   | 58                  | 3,779              | 4,921              | 5,394              |
| Cash and cash equivalents at the end of the year   | <b>U.S.\$39</b>     | <b>Rs.2,542</b>    | <b>Rs.3,779</b>    | <b>Rs.4,921</b>    |
| Supplemental schedule of non-cash investing and financing activities:  |                     |                    |                    |                    |
| Investment in shares of Curis, Inc.  | U.S.\$-             | Rs.-               | Rs.1,247           | Rs.-               |
| Acquisition of select products portfolio of UCB  | -                   | -                  | -                  | 64                 |
| Property, plant and equipment and intangibles purchased on credit during the year, including contingent consideration on purchase of intangibles | 10                  | 662                | 301                | 1,064              |
| Property, plant and equipment purchased under capital lease  | -                   | -                  | 3                  | -                  |

## **DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

#### **1. Reporting entity**

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

#### **2. Basis of preparation of financial statements**

##### *a. Statement of compliance*

These consolidated financial statements as at and for the year ended March 31, 2018 have been prepared in accordance with the International Financial Reporting Standards and its interpretations ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements have been prepared for the Company as a going concern on the basis of relevant IFRS that are effective or elected for early adoption at the Company's annual reporting date, March 31, 2018. These consolidated financial statements were authorized for issuance by the Company's Board of Directors on June 15, 2018.

***b. Basis of measurement***

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

- derivative financial instruments are measured at fair value;
- available-for-sale financial assets are measured at fair value;
- employee defined benefit assets/(liability) are recognized as the net total of the fair value of plan assets, plus actuarial losses, less actuarial gains and the present value of the defined benefit obligation;
- long term borrowings, except obligations under finance leases, are measured at amortized cost using the effective interest rate method;
- share-based payments;
- held-to-maturity investments are measured at amortized cost using the effective interest rate method;
- loans and receivables are measured at amortized cost using the effective interest rate method; and
- investments in joint ventures are accounted for using the equity method.

***c. Functional and presentation currency***

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

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

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

***d. Convenience translation (unaudited)***

These consolidated financial statements have been prepared in Indian rupees. Solely for the convenience of the reader, these consolidated financial statements as of and for the year ended March 31, 2018 have been translated into U.S. dollars at the certified foreign exchange rate of U.S.\$1.00 = Rs.65.11, as published by the Federal Reserve Board of Governors on March 30, 2018. No representation is made that the Indian rupee amounts have been, could have been or could be converted into U.S. dollars at such a rate or any other rate. Such convenience translation is not subject to audit by the Company's independent auditors.

F-8

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**2. Basis of preparation of financial statements (continued)**

*e. Use of estimates and judgments*

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

Estimates and underlying assumptions are reviewed on an ongoing basis. 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 is included in the following notes:

- Note 3(a) — Evaluation of joint arrangements;
- Note 2(c) — Assessment of functional currency;
- Note 3(c) and 30 — Financial instruments;
- Notes 3(d) — Business combinations;
- Notes 3(e) and (f) — Useful lives of property, plant and equipment and intangible assets;
- Note 3(h) — Valuation of inventories;
- Notes 3(i), 6, 7 and 8 — Measurement of recoverable amounts of cash-generating units;
- Note 3 (j) and 18 — Assets and obligations relating to employee benefits;
- Note 3 (j) — Share-based payments;
- Note 3(k) — Provisions and other accruals;
- Note 3(l) — Sales returns, rebates and chargeback provisions;
- Note 3(o) — Evaluation of recoverability of deferred tax assets; and
- Note 39 — Contingencies

**3. Significant accounting policies**



***a. Basis of consolidation***

*Subsidiaries*

Subsidiaries are all entities (including special purpose entities) that are controlled by the Company. Control exists when the Company is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through power over the entity. In assessing control, potential voting rights are considered only if the rights are substantive. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date that control ceases. For the purpose of preparing these consolidated financial statements, the accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Company.

*Joint arrangements (equity accounted investees)*

Joint arrangements are those arrangements over which the Company has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

A joint arrangement is either a joint operation or a joint venture. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Investments in associates and joint ventures are accounted for using the equity method and are initially recognized at cost. The carrying value of the Company's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The Company does not consolidate entities where the non-controlling interest ("NCI") holders have certain significant participating rights that provide for effective involvement in significant decisions in the ordinary course of business of such entities. Investments in such entities are accounted by the equity method of accounting. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to zero and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

For the purpose of preparing these consolidated financial statements, the accounting policies of joint ventures have been changed where necessary to align them with the policies adopted by the Company.

F-9

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**3. Significant accounting policies (continued)**

*a. Basis of consolidation (continued)*

*Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in full while preparing these consolidated financial statements. Unrealized gains or losses arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Company's interest in the investee.

*Acquisition of non-controlling interests*

Acquisition of some or all of the NCI is accounted for as a transaction with equity holders in their capacity as equity holders. Consequently, the difference arising between the fair value of the purchase consideration paid and the carrying value of the NCI is recorded as an adjustment to retained earnings that is attributable to the parent company. The associated cash flows are classified as financing activities. No goodwill is recognized as a result of such transactions.

*Loss of Control*

Upon loss of control, the Company derecognizes the assets and liabilities of the subsidiary, any NCIs and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in the consolidated income statement. If the Company retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee

or as an available-for-sale financial asset, depending on the level of influence retained.

***b. Foreign currency***

*Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of entities within the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate at that date. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognized in the consolidated income statement in the period in which they arise.

However, foreign currency differences arising from the translation of the following items are recognized in other comprehensive income (“OCI”):

- available-for-sale financial assets (except on impairment, in which case foreign currency differences that have been recognized in OCI are reclassified to the consolidated income statement);

- a financial liability designated as a hedge of the net investment in a foreign operation, to the extent that the hedge is effective; and

- qualifying cash flow hedges, to the extent that the hedges are effective.

When several exchange rates are available, the rate used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date.

*Foreign operations*

Foreign exchange gains and losses arising from a monetary item receivable from 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 OCI and presented within equity as a part of foreign currency translation reserve ("FCTR").

In case of foreign operations whose functional currency is different from the parent company's functional currency, the assets and liabilities of such foreign operations, including goodwill and fair value adjustments arising upon acquisition, are translated to the reporting currency at exchange rates at the reporting date. The income and expenses of such foreign operations are translated to the reporting currency at the monthly average exchange rates prevailing during the year. Resulting foreign currency differences are recognized in OCI and presented within equity as part of FCTR. When a foreign operation is disposed of, in part or in full, such that control, significant influence or joint control is lost, the relevant amount in the FCTR is transferred to the consolidated income statement.

F-10

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**3. Significant accounting policies (continued)**

*c. Financial instruments*

Non-derivative financial instruments

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

Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs, except for those instruments that are designated as being fair value through profit and loss upon initial recognition. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

*Cash and cash equivalents*

Cash and cash equivalents consist of cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value. For this purpose, "short-term" means investments having original maturities of three months or less from the date of investment. Bank overdrafts that are repayable on demand form an integral part of the Company's cash management and are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

*Held-to-maturity investments*

Held-to-maturity investments consist of investments in bonds with fixed or determinable payments and fixed maturity that the Company has the positive intention and the ability to hold to maturity. Such investments are initially measured at fair value, with subsequent measurements made at amortized cost using the effective interest rate method.

*Other investments*

Other investments consist of term deposits with original maturities of more than three months, and investments in mutual funds and equity securities.

Investments in mutual funds and equity 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 in OCI and presented within equity under “fair value reserve”. When an investment is derecognized, the cumulative gain or loss in equity is transferred to the consolidated income statement.

*Trade payables*

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is expected within one year or within the normal operating cycle of the business. After initial recognition, trade payables are recognized at amortized cost using the effective interest rate method.

*Trade receivables*

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. Trade receivables are classified as current assets if the collection is expected within one year or within the normal operating cycle of the business. After initial recognition, trade receivables are recognized at amortized cost using effective interest rate method.

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**3. Significant accounting policies (continued)**

*c. Financial instruments (continued)*

*Debt instruments and other financial liabilities*

The Company initially recognizes debt instruments issued on the date that they originate. All other financial liabilities are recognized initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument. These are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

*Other non-derivative financial instruments*

Other non-derivative financial instruments are initially recognized at fair value. Subsequent to initial recognition, these assets are measured at amortized cost using the effective interest method, less any impairment losses.

*De-recognition of financial assets and liabilities*

The Company derecognizes a financial asset when the contractual right to the cash flows from that asset expires, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing, at amortized cost, for the proceeds received.



The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired. The difference between the carrying amount of the derecognized financial liability and the consideration paid is recognized as profit or loss in the consolidated income statement.

#### *Offsetting financial assets and liabilities*

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right and ability to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

#### Derivative financial instruments

The Company is exposed to exchange rate risk which arises from its foreign exchange revenues and expenses, primarily in U.S. dollars, U.K. pounds sterling, Russian roubles, Brazilian reals, South African rands (“ZAR”), Romanian new leus (“RON”) and Euros, and foreign currency debt in U.S. dollars, Russian roubles, Ukrainian hryvnias and Euros.

The Company uses foreign exchange forward contracts, option contracts and swap contracts (derivative financial instruments) to mitigate its risk of changes in foreign currency exchange rates. The Company also uses non-derivative financial instruments as part of its foreign currency exposure risk mitigation strategy.

#### *Hedges of highly probable forecast transactions*

The Company classifies its derivative financial instruments that hedge foreign currency risk associated with highly probable forecast transactions as cash flow hedges and measures them at fair value. The effective portion of such cash flow hedges is recognized in OCI and presented within equity under “hedging reserve” and reclassified to the consolidated income statement as revenue in the period corresponding to the occurrence of such transactions. The ineffective portion of such cash flow hedges is recorded in the consolidated income statement as finance expense immediately.

The Company also designates certain non-derivative financial liabilities, such as foreign currency borrowings from banks, as hedging instruments for hedge of foreign currency risk associated with highly probable forecast transactions. Accordingly, the Company applies cash flow hedge accounting to such relationships. Re-measurement gain/loss on

such non-derivative financial liabilities is recognized in OCI and presented within equity under “hedging reserve” and reclassified to the consolidated income statement as revenue in the period corresponding to the occurrence of the forecast transactions.

F-12

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**3. Significant accounting policies (continued)**

*c. Financial instruments (continued)*

Upon initial designation of a hedging instrument, the Company formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Company makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be “highly effective” in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80%-125% relative to the gain or loss on the hedged items. For cash flow hedges to be “highly effective”, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect 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 OCI, remains there until the forecast transaction occurs. If the forecast transaction is no longer expected to occur, then the balance in OCI is recognized immediately in the consolidated income statement.

*Hedges of recognized assets and liabilities*

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

*Hedges of changes in the interest rates*

Consistent with its risk management policy, the Company uses interest rate swaps to mitigate the risk of changes in interest rates. The Company does not use them for trading or speculative purposes.

***d. Business combinations***

The Company uses the acquisition method of accounting to account for business combinations that occurred on or after April 1, 2009. The acquisition date is the date on which control is transferred to the acquirer. Judgment is applied in determining the acquisition date and determining whether control is transferred from one party to another. Control exists when the Company is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through power over the entity. In assessing control, potential voting rights are considered only if the rights are substantive. The Company measures goodwill as of the applicable acquisition date at the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount of the identifiable assets acquired and liabilities assumed. When the fair value of the net identifiable assets acquired and liabilities assumed exceeds the consideration transferred, a bargain purchase gain is recognized immediately in the consolidated income statement. Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Company to the previous owners of the acquiree, and equity interests issued by the Company. Consideration transferred also includes the fair value of any contingent consideration. Consideration transferred does not include amounts related to the settlement of pre-existing relationships. Any goodwill that arises on account of such business combination is tested annually for impairment.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and the settlement is accounted for within equity. Otherwise, other contingent consideration is re-measured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recorded in the consolidated income statement.

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.

On an acquisition-by-acquisition basis, the Company recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Transaction costs that the Company incurs 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.

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**3. Significant accounting policies (continued)**

*e. Property, plant and equipment*

*Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and other costs directly attributable to bringing the asset to a working condition for its intended use. Borrowing costs that are directly attributable to the construction or production of a qualifying asset are capitalized as part of the cost of that asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses upon disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within "Other (income)/expense, net" in the consolidated income statement.

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of repairs and maintenance are recognized in the consolidated income statement as incurred.

Items of property, plant and equipment acquired through exchange of non-monetary assets are measured at fair value, unless the exchange transaction lacks commercial substance or the fair value of either the asset received or asset given up is not reliably measurable, in which case the asset exchanged is recorded at the carrying amount of the asset given up.

### *Depreciation*

Depreciation is recognized in the consolidated income statement on a straight line basis over the estimated useful lives of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. The depreciation expense is included in the costs of the functions using the asset. Land is not depreciated.

Leasehold improvements are depreciated over the period of the lease agreement or the useful life, whichever is shorter.

Depreciation methods, useful lives and residual values are reviewed at each reporting date. The estimated useful lives are as follows:

|  |               |
|--|---------------|
| Buildings                                |               |
| - Factory and administrative buildings   | 20 - 50 years |
| - Ancillary structures                   | 3 - 15 years  |
| Plant and equipment                      | 3 - 15 years  |
| Furniture, fixtures and office equipment | 4 - 10 years  |
| Vehicles                                 | 4 - 5 years   |
| Computer equipment                       | 3 - 5 years   |

Software for internal use, which is primarily acquired from third-party vendors and which is an integral part of a tangible asset, including consultancy charges for implementing the software, is capitalized as part of the related tangible asset. Subsequent costs associated with maintaining such software are recognized as expense as incurred. The capitalized costs are amortized over the estimated useful life of the software or the remaining useful life of the tangible fixed asset, whichever is lower.

Advances paid towards the acquisition of property, plant and equipment outstanding at each reporting date and the cost of property, plant and equipment not ready to use before such date are disclosed under capital work-in-progress. Assets not ready for use are not depreciated.

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in millions, except share and per share data)

**3. Significant accounting policies (continued)**

*f. Goodwill and other intangible assets*

*Recognition and measurement*

Goodwill represents the excess of consideration transferred, together with the amount of non-controlling interest in the acquiree, over the fair value of the Company's share of identifiable net assets acquired.

***Goodwill***

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.

***Other intangible assets***

Other intangible assets that are acquired by the Company and that have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

***Research and development***

Expenditures on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding are recognized in the consolidated income statement 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
- the Company intends to, and has sufficient resources, to complete development and to use or sell the asset.

The expenditures to be 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 the consolidated income statement as incurred. As of March 31, 2018, none of the

development expenditure amounts has met the aforesaid recognition criteria.

***Separate acquisition of intangible assets***

Payments to third parties that generally take the form of up-front payments and milestones for in-licensed products, compounds and intellectual property are capitalized. The Company's criteria for capitalization of such assets are consistent with the guidance given in paragraph 25 of International Accounting Standard 38 ("IAS 38") (i.e., the receipt of economic benefits embodied in each intangible asset separately purchased or licensed in the transaction is considered to be probable).

***In-Process Research and Development assets ("IPR&D")***

Acquired research and development intangible assets that are under development are recognized as In-Process Research and Development assets ("IPR&D"). IPR&D assets are not amortized, but evaluated for potential impairment on an annual basis or when there are indications that the carrying value may not be recoverable. Any impairment charge on such IPR&D assets is recorded in the consolidated income statement under "Research and Development expenses".

***Subsequent expenditure***

***Other intangible assets***

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures, including expenditures on internally generated goodwill and brands, is recognized in the consolidated income statement as incurred.

Subsequent expenditure on an IPR&D project acquired separately or in a business combination and recognized as an intangible asset is:

- recognized as an expense when incurred, if it is a research expenditure;
- recognized as an expense when incurred, if it is a development expenditure that does not satisfy the criteria for recognition as an intangible asset in paragraph 57 of IAS 38; and
- added to the carrying amount of the acquired in-process research or development project, if it is a development expenditure that satisfies the recognition criteria in paragraph 57 of IAS 38.

***IPR&D assets***

***Amortization***

Amortization is recognized in the consolidated income statement on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets that are not available for use are amortized from the date they are available for use.

The estimated useful lives are as follows:

|                                |              |
|--------------------------------|--------------|
| Trademarks                     | 3 - 12 years |
| Product related intangibles    | 5 - 15 years |
| Customer-related intangibles   | 1 - 11 years |
| Technology related intangibles | 3 - 13 years |
| Other intangibles              | 3 - 15 years |



F-15

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**3. Significant accounting policies (continued)**

*f. Goodwill and other intangible assets (continued)*

The amortization period and the amortization method for intangible assets with a finite useful life are reviewed at each reporting date.

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 reporting date. All other intangible assets are tested for impairment when there are indications that the carrying value may not be recoverable. All impairment losses are recognized immediately in the consolidated income statement.

*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. Losses arising on such de-recognition are recorded in the consolidated income statement, and are measured as the difference between the net disposal proceeds, if any, and the carrying amount of respective intangible assets as at the date of de-recognition.

*g. Leases*

At the inception of each lease, the lease arrangement is classified as either a finance lease or an operating lease, based on the substance of the lease arrangement.

*Finance leases*

A finance lease is recognized as an asset and a liability at the commencement of the lease, at the lower of the fair value of the asset and the present value of the minimum lease payments. Initial direct costs, if any, are also capitalized and, subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding lease liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

*Operating leases*

Other leases are operating leases, and the leased assets are not recognized on the Company's statements of financial position. Payments made under operating leases are recognized in the consolidated income statement on a straight-line basis over the term of the lease.

Operating lease incentives received from the landlord are recognized as a reduction of rental expense on a straight line basis over the lease term.

***h. Inventories***

Inventories consist of raw materials, stores and spares, work in progress and finished goods and are measured at the lower of cost and net realizable value. The cost of all categories of inventories is based on the weighted average method. Cost includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of finished goods and work in progress, cost includes an appropriate share of overheads based on normal operating capacity. Stores and spares consists of packing materials, engineering spares (such as machinery spare parts) and consumables (such as lubricants, cotton waste and oils), which are used in operating machines or consumed as indirect materials in the manufacturing process.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The factors that the Company considers in determining the provision for slow moving, obsolete and other non-saleable inventory include estimated shelf life, planned product discontinuances, price changes, aging of inventory and introduction of competitive new products, to the extent each of these factors impact the Company's business and

markets. The Company considers all these factors and adjusts the inventory provision to reflect its actual experience on a periodic basis.

***i. 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.

Significant financial assets are tested for impairment on an individual basis. All impairment losses/(reversals of impairment losses) are recognized in the consolidated income statement.

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**3. Significant accounting policies (continued)**

***i. Impairment (continued)***

When the fair value of available-for-sale financial assets declines below acquisition cost and there is objective evidence that the asset is impaired, the cumulative loss that has been recognized in OCI is transferred to the consolidated income statement. An impairment loss may be reversed in subsequent periods, if the indicators for the impairment no longer exist. Such reversals are recognized in OCI.

*Non-financial assets*

The carrying amounts of the Company's 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 (as defined below) 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 or the cash-generating unit. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate 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 is, for the purpose of impairment testing, allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognized in the consolidated income statement if the estimated recoverable amount of an asset or its cash-generating unit is lower than its carrying amount. 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.

An impairment loss in respect of equity accounted investee is measured by comparing the recoverable amount of investment with its carrying amount. An impairment loss is recognized in the consolidated income statement, and reversed if there has been a favorable change in the estimates used to determine the recoverable amount.

#### *j. Employee benefits*

##### *Short-term employee benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

##### *Defined contribution plans*

The Company's contributions to defined contribution plans are charged to the consolidated income statement as and when the services are received from the employees.

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**3. Significant accounting policies (continued)**

*j. Employee benefits (continued)*

*Defined benefit plans*

The liability in respect of defined benefit plans and other post-employment benefits is calculated using the projected unit credit method consistent with the advice of qualified actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related defined benefit obligation. In countries where there is no deep market in such bonds, the market interest rates on government bonds are used. The current service cost of the defined benefit plan, recognized in the consolidated income statement in employee benefit expense, reflects the increase in the defined benefit obligation resulting from employee service in the current year, benefit changes, curtailments and settlements. Past service costs are recognized immediately in the consolidated income statement. The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the consolidated income statement. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in OCI in the period in which they arise.

When the benefits under a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in the consolidated income statement. The Company recognizes gains or losses on the settlement of a defined benefit plan obligation when the settlement occurs.

*Termination benefits*

Termination benefits are recognized as an expense in the consolidated income statement when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate

employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense in the consolidated income statement if the Company has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

*Other long-term employee benefits*

The Company's net obligation in respect of other long term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and previous periods. That benefit is discounted to determine its present value. Re-measurements are recognized in the consolidated income statement in the period in which they arise.

*Compensated absences*

The Company's current policies permit certain categories of its employees to accumulate and carry forward a portion of their unutilized compensated absences and utilize them in future periods or receive cash in lieu thereof in accordance with the terms of such policies. The Company measures the expected cost of accumulating compensated absences as the additional amount that the Company incurs as a result of the unused entitlement that has accumulated at the reporting date. Such measurement is based on actuarial valuation as at the reporting date carried out by a qualified actuary.

*Equity settled share-based payment transactions*

The grant date fair value of options granted to employees is recognized as an employee expense in the consolidated income statement, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. The expense is recorded for each separately vesting portion of the award as if the award was, in substance, multiple awards. The increase in equity recognized in connection with share-based payment transaction is presented as a separate component in equity under "share-based payment reserve". The amount recognized as an expense is adjusted to reflect the actual number of stock options that vest.

*Cash settled share-based payment transactions*



The fair value of the amount payable to employees in respect of share-based payment transactions which are settled in cash is recognized as an expense, with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The liability is re-measured at each reporting date and at the settlement date based on the fair value of the share-based payment transaction. Any changes in the liability are recognized in the consolidated income statement.

F-18

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**3. Significant accounting policies (continued)**

*k. Provisions*

A provision is recognized in the consolidated income statement if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable 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.

*Restructuring*

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

*Onerous contracts*

A provision for onerous contracts is recognized in the consolidated income statement when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its 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, the Company recognizes any impairment loss on the assets associated with that contract.

*Reimbursement rights*

Expected reimbursements for expenditures required to settle a provision are recognized in the consolidated income statement 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.

*Contingent liabilities and contingent assets*

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

Contingent assets are not recognized in the financial statements. However, contingent assets are assessed continually and, if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognized in the period in which the change occurs.

***1. 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 relevant taxes 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 sales of generic products in India is recognized upon delivery of products to distributors by clearing and forwarding agents of the Company. Significant risks and rewards in respect of ownership of generic products are transferred by the Company 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. Revenue from sales of active pharmaceutical ingredients and intermediates in India is recognized on delivery of products to customers (generally formulation manufacturers), from the factories of the Company.

Revenue from export sales and other sales outside of India 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.

*Profit share revenues*

The Company from time to time enters into marketing arrangements with certain business partners for the sale of its products in certain markets. Under such arrangements, the Company sells its products to the business partners at a non-refundable base purchase price agreed upon in the arrangement and is also entitled to a profit share which is over and above the base purchase price. The profit share is typically dependent on the business partner's ultimate net sale proceeds or net profits, subject to any reductions or adjustments that are required by the terms of the arrangement. Such arrangements typically require the business partner to provide confirmation of units sold and net sales or net profit computations for the products covered under the arrangement.

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**3. Significant accounting policies (continued)**

***1. Revenue (continued)***

*Profit share revenues (continued)*

Revenue in an amount equal to the base purchase price is recognized in these transactions upon delivery of products to the business partners. An additional amount representing the profit share component is recognized as revenue in the period which corresponds to the ultimate sales of the products made by business partners only when the collectability of the profit share becomes probable and a reliable measurement of the profit share is available. Otherwise, recognition is deferred to a subsequent period pending satisfaction of such collectability and measurability requirements. In measuring the amount of profit share revenue to be recognized for each period, the Company uses all available information and evidence, including any confirmations from the business partner of the profit share amount owed to the Company, to the extent made available before the date the Company's Board of Directors authorizes the issuance of its financial statements for the applicable period.

*Milestone payments and out licensing arrangements*

Revenues include amounts derived from product out-licensing agreements. These arrangements typically consist of an initial up-front payment on inception of the license and subsequent payments dependent on achieving certain milestones in accordance with the terms prescribed in the agreement. Non-refundable up-front license fees received in connection with product out-licensing agreements are deferred and recognized over the period in which the Company has continuing performance obligations. Milestone payments which are contingent on achieving certain clinical milestones are recognized as revenues either on achievement of such milestones, if the milestones are considered substantive, or over the period the Company has continuing performance obligations, if the milestones are not considered substantive. If milestone payments are creditable against future royalty payments, the milestones are deferred and released over the period in which the royalties are anticipated to be paid.

*Provision for chargeback, rebates and discounts*

Provisions for chargeback, rebates, discounts and Medicaid payments are estimated and provided for in the year of sales and recorded as reduction of revenue. A chargeback claim is a claim made by the wholesaler for the difference between the price at which the product is initially invoiced to the wholesaler and the net price at which it is agreed to be procured from the Company. Provisions for such chargebacks are accrued and estimated based on historical average chargeback rate actually claimed over a period of time, current contract prices with wholesalers/other customers and estimated inventory holding by the wholesaler.

*Shelf stock adjustments*

Shelf stock adjustments are credits issued to customers to reflect decreases in the selling price of products sold by the Company, and are accrued when the prices of certain products decline as a result of increased competition upon the expiration of limited competition or exclusivity periods. These credits are customary in the pharmaceutical industry, and are intended to reduce the customer inventory cost to better reflect the current market prices. The determination to grant a shelf stock adjustment to a customer is based on the terms of the applicable contract, which may or may not specifically limit the age of the stock on which a credit would be offered.

*Sales Returns*

The Company accounts 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 the Company's estimate of expected sales returns. The Company deals in various products and operates in various markets. Accordingly, the estimate of sales returns is determined primarily by the Company's historical experience in the markets in which the Company operates. With respect to established products, the Company considers its 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 the Company's business and markets. With respect to new products introduced by the Company, such products have historically been either extensions of an existing line of product where the Company has historical experience or in therapeutic categories where established products exist and are sold either by the Company or the Company's competitors.

*Services*

Revenue from services rendered, which primarily relate to contract research, is recognized in the consolidated income statement 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 the consolidated income statement as a reduction from “Cost of Revenues” when the right to receive credit as per the terms of the scheme is established in respect of the exports made by the Company, and where there is no significant uncertainty regarding the ultimate collection of the relevant export proceeds.

F-20

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**3. Significant accounting policies (continued)**

***l. Revenue (continued)***

*License fees*

The Company enters into certain dossier sales, licensing and supply arrangements with various parties. Income from licensing arrangements is generally recognized over the term of the contract. Some of these arrangements include certain performance obligations by the Company. Revenue from such arrangements is recognized in the period in which the Company completes all its performance obligations.

***m. Shipping and handling costs***

Shipping and handling costs incurred to transport products to customers, and internal transfer costs incurred to transport the products from the Company's factories to its various points of sale, are included in selling, general and administrative expenses.

***n. Finance income and expense***

Finance income consists of interest income on funds invested (including available-for-sale financial assets), dividend income and gains on the disposal of available-for-sale financial assets. Interest income is recognized in the consolidated income statement as it accrues, using the effective interest method. Dividend income is recognized in the consolidated income statement on the date that the Company's right to receive payment is established. The associated cash flows are classified as investing activities in the statement of cash flows. Finance expenses consist of interest expense on loans and borrowings.



Borrowing costs are recognized in the consolidated income statement using the effective interest method. The associated cash flows are classified as financing activities in the statement of cash flows.

Foreign currency gains and losses are reported on a net basis within finance income and expense. These primarily include: exchange differences arising on the settlement or translation of monetary items; changes in the fair value of derivative contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied; and the ineffective portion of cash flow hedges.

*o. Income tax*

Income tax expense consists of current and deferred tax. Income tax expense is recognized in the consolidated income statement 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:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit;
- temporary 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; and
- 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.

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.

Any deferred tax asset or liability arising from deductible or taxable temporary differences in respect of unrealized inter-company profit or loss on inventories held by the Company in different tax jurisdictions is recognized using the tax rate of the jurisdiction in which such inventories are held. Withholding tax arising out of payment of dividends to shareholders under the Indian Income tax regulations is not considered as tax expense for the Company and all such taxes are recognized in the statement of changes in equity as part of the associated dividend payment.

F-21

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**3. Significant accounting policies (continued)**

*p. Earnings per share*

The Company presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which includes all stock options granted to employees.

*q. Government grants*

The Company recognizes government grants only when there is reasonable assurance that the conditions attached to them will be complied with, and the grants will be received. Government grants received in relation to assets are presented as a reduction to the carrying amount of the related asset. Grants related to income are deducted in reporting the related expense in the consolidated income statement.

*r. Segment reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief executive officer of the Company is responsible for allocating resources and assessing performance of the operating segments and accordingly is identified as the chief operating decision maker.

*s. Recent accounting pronouncements*

**Standards issued but not yet effective and not early adopted by the Company***IFRS 9, Financial instruments*

In July 2014, the IASB issued the final version of IFRS 9, “Financial instruments”. IFRS 9 significantly differs from IAS 39, “Financial Instruments: Recognition and Measurement”, and includes a logical model for classification and measurement, a single, forward-looking “expected loss” impairment model and a substantially-reformed approach to hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted.

Detailed below is a summary of the impact of IFRS 9 on the classifications of investments in the consolidated financial statements of the Company:

| <b>Type of instrument</b>         | <b>Classification under IAS 39</b>  | <b>Classification under IFRS 9</b>  |
|-----------------------------------|---|---|
| Investments in mutual funds       | Classified as available-for-sale financial assets, with fair value differences recognized in OCI. | Classified as debt instruments at fair value through profit and loss (“FVTPL”), with all the fair value changes on subsequent re-measurement recognized in the consolidated income statement.   |
| Investments in equity instruments | Classified as available-for-sale financial assets, with fair value differences recognized in OCI. | All equity investments within the scope of IFRS 9 are measured at fair value. Equity instruments which are held for trading and contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies are classified as FVTPL. For all other equity instruments, on initial recognition, the Company may make an irrevocable election to present subsequent changes in the fair value in OCI. The Company may make such election on an instrument-by-instrument basis. |

If the Company decides to classify an equity instrument as at fair value through other comprehensive income (“FVTOCI”), then all fair value changes on the instrument, excluding dividends, are recognized in OCI. There will be no recycling of the amounts from OCI to the consolidated income statement, even on sale of the investment. However, the Company may transfer the cumulative gain or loss within equity.

Equity instruments included within the FVTPL category are measured at fair value, with all changes recognized in the consolidated income statement.

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**3. Significant accounting policies (continued)**

*s. Recent accounting pronouncements (continued)*

**Standards issued but not yet effective and not early adopted by the Company (continued)**

*IFRS 9, Financial instruments (continued)*

Impact on impairment of trade receivables

In accordance with IFRS 9, the Company shall apply the expected credit loss (“ECL”) model for measurement and recognition of impairment loss on its trade receivables or any contractual right to receive cash or another financial asset that result from transactions that are within the scope of IFRS 15.

For this purpose, the Company can choose to follow a “simplified approach” for recognition of impairment loss allowance on the trade receivable balances. The application of the simplified approach does not require the Company to track changes in credit risk. Rather, it recognizes impairment loss allowance based on lifetime ECLs at each reporting date, right from its initial recognition.

For this purpose, the Company has designed a provision matrix to determine impairment loss allowance on the portfolio of its trade receivables. The provision matrix is based on its historically observed default rates over the expected life of the trade receivables and is adjusted for forward-looking estimates. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

Impact on hedge accounting

The new hedge accounting model introduced by the standard requires hedge accounting relationships to be based upon the Company's own risk management strategy and objectives, and to be discontinued only when the relationships no longer qualify for hedge accounting. Based on the impact of the adoption assessment performed, the Company believes that its existing hedge relationships will continue to be designated as such under the new hedge accounting requirements.

The Company implemented the new standard on April 1, 2018 and applied the modified retrospective method, which requires the recognition of the cumulative effect of initially applying IFRS 9, as at April 1, 2018, to retained earnings and not restate prior years.

*IFRS 15, Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers". This comprehensive new standard will supersede existing revenue recognition guidance, and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

The Company adopted IFRS 15 effective April 1, 2018, using the modified retrospective method. The adoption of IFRS 15 does not have any significant impact on the Company's recognition of revenues from product sales, service income and license fee.

*IFRS 16, Leases*

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

Upon adoption, a portion of the annual operating lease expense, which is currently fully recognized as functional expense, will be recognized as finance expense. Further, a portion of the annual lease payments recognized in the cash flow statement as reduction of lease liability will be recognized as outflow from financing activities, which are currently fully recognized as an outflow from operating activities.

The undiscounted and non-cancellable operating lease commitments of Rs.1,929 and Rs.1,710 as at March 31, 2018 and 2017, respectively, as disclosed in Note 27 of these consolidated financial statements, provide an indicator of the impact of implementation of IFRS 16 on the consolidated financial statements of the Company. Accordingly, the Company believes that the adoption of IFRS 16 will not have a material impact on its consolidated financial statements.

F-23



**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**3. Significant accounting policies (continued)**

*s. Recent accounting pronouncements (continued)*

**Standards issued but not yet effective and not early adopted by the Company (continued)**

*IFRIC 22, Foreign Currency Transactions and Advance Consideration*

In December 2016, the IASB issued IFRIC Interpretation 22, "Foreign Currency Transactions and Advance Consideration," which addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency. IFRIC Interpretation 22 is effective for annual reporting periods beginning on or after January 1, 2018. The Company believes that the adoption of IFRIC 22 does not have a material impact on its consolidated financial statements.

*IFRIC 23, Uncertainty over Income Tax treatments*

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

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

there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits, including tax rates.

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

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

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

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

#### *t. Share capital*

##### *Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and stock options are recognized as a deduction from equity, net of any tax effects.

When shares recognized as equity are repurchased, the amount of consideration paid, which includes costs that are directly attributable, is recognized as a deduction from equity.

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**4. Determination of fair values**

The Company's accounting policies and disclosures require the determination of fair value, for certain financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

***(i) Property, plant and equipment***

Property, plant and equipment, if acquired in a business combination or through an exchange of non-monetary assets, is measured at fair value on the acquisition date. For this purpose, fair value is based on appraised market values and replacement cost.

***(ii) Intangible assets***

The fair value of brands, technology related intangibles, and patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of these brands, technology related intangibles, patents or trademarks being owned (the "relief of royalty method"). The fair value of customer related, product related and other intangibles acquired in a business combination has been determined using the multi-period excess earnings method. Under this method, value is estimated as the present value of the benefits anticipated from ownership of the intangible assets in excess of the returns required or the investment in the contributory assets necessary to realize those benefits.

***(iii) Inventories***

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

***(iv) Investments in equity and debt securities and units of mutual funds***

The fair value of available-for-sale marketable equity and debt securities is determined by reference to their quoted market price at the reporting date. For debt securities where quoted market prices are not available, fair value is determined using pricing techniques such as discounted cash flow analysis.

In respect of investments in mutual funds, the fair values represent net asset value as stated by the issuers of these mutual fund units in the published statements. Net asset values represent the price at which the issuer will issue further units in the mutual fund and the price at which issuers will redeem such units from the investors.

Accordingly, such net asset values are analogous to fair market value with respect to these investments, as transactions of these mutual funds are carried out at such prices between investors and the issuers of these units of mutual funds.

***(v) Derivatives***

The fair value of foreign exchange forward contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds). The fair value of foreign currency option and swap contracts and interest rate swap contracts is determined based on the appropriate valuation techniques, considering the terms of the contract.

***(vi) Non-derivative financial liabilities***

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements. In respect of the Company's borrowings that have floating rates of interest, their fair value approximates carrying value.

***(vii) Share-based payment transactions***

The fair value of employee stock options is measured using the Black-Scholes-Merton valuation model. Measurement inputs include share price on grant date, exercise price of the instrument, expected volatility (based on weighted average historical volatility), expected life of the instrument (based on historical experience), expected dividends, and the risk free interest rate (based on government bonds).

F-25

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**5. Segment reporting**

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

The Company’s reportable operating segments are as follows:

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

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

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

***Proprietary Products.*** This segment consists of the Company’s business that focuses on the research, development, and manufacture of differentiated formulations. These products fall within the dermatology and neurology therapeutic

areas and are marketed and sold through Promius® Pharma, LLC.

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

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

Segment information: For the Year Ended March 31,

| Reportable segments                                       | Global Generics |             |             | PSAI       |            |            | Proprietary Products |           |           |
|---|-----------------|-------------|-------------|------------|------------|------------|----------------------|-----------|-----------|
|   | 2018            | 2017        | 2016        | 2018       | 2017       | 2016       | 2018                 | 2017      | 2016      |
| <b>Revenues</b> <sup>(1) (2)</sup>                        | Rs. 114,014     | Rs. 115,409 | Rs. 128,062 | Rs. 21,992 | Rs. 21,277 | Rs. 22,379 | Rs. 4,245            | Rs. 2,363 | Rs. 2,100 |
| Gross profit  | Rs. 67,190      | Rs. 71,079  | Rs. 84,427  | Rs. 4,446  | Rs. 4,473  | Rs. 4,931  | Rs. 3,799            | Rs. 1,951 | Rs. 2,100 |
| Selling, general and administrative expenses              |                 |             |             |            |            |            |                      |           |           |
| Research and development expenses                         |                 |             |             |            |            |            |                      |           |           |
| Other (income)/expense, net                               |                 |             |             |            |            |            |                      |           |           |
| Results from operating activities                         |                 |             |             |            |            |            |                      |           |           |
| Finance (expense)/income, net                             |                 |             |             |            |            |            |                      |           |           |
| Share of profit of equity accounted investees, net of tax |                 |             |             |            |            |            |                      |           |           |
| Profit before tax   |                 |             |             |            |            |            |                      |           |           |
| Tax expense   |                 |             |             |            |            |            |                      |           |           |
| Profit for the year                                       |                 |             |             |            |            |            |                      |           |           |

[Continued on next page]

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****(in millions, except share and per share data)****5. Segment reporting (continued)**

[Continued from above table, first column repeated]

| Segment information:<br>Reportable segments               | For the Year Ended March 31, |           |           |             |             |             |
|---|------------------------------|-----------|-----------|-------------|-------------|-------------|
|   | Others                       |           |           | Total       |             |             |
|   | 2018                         | 2017      | 2016      | 2018        | 2017        | 2016        |
| <b>Revenues<sup>(1) (2)</sup></b>                         | Rs. 1,777                    | Rs. 1,760 | Rs. 1,608 | Rs. 142,028 | Rs. 140,809 | Rs. 154,708 |
| Gross profit  | Rs. 869                      | Rs. 853   | Rs. 706   | Rs. 76,304  | Rs. 78,356  | Rs. 92,281  |
| Selling, general and administrative expenses              |                              |           |           | 46,910      | 46,372      | 45,702      |
| Research and development expenses                         |                              |           |           | 18,265      | 19,551      | 17,834      |
| Other (income)/expense, net                               |                              |           |           | (788 )      | (1,065 )    | (874 )      |
| Results from operating activities                         |                              |           |           | Rs. 11,917  | Rs. 13,498  | Rs. 29,619  |
| Finance (expense)/income, net                             |                              |           |           | 2,080       | 806         | (2,708 )    |
| Share of profit of equity accounted investees, net of tax |                              |           |           | 344         | 349         | 229         |
| Profit before tax   |                              |           |           | Rs. 14,341  | Rs. 14,653  | Rs. 27,140  |
| Tax expense   |                              |           |           | 4,535       | 2,614       | 7,127       |
| Profit for the year                                       |                              |           |           | Rs. 9,806   | Rs. 12,039  | Rs. 20,013  |

Revenues for the year ended March 31, 2018 do not include inter-segment revenues from the PSAI segment to the (1) Global Generics segment, which amount to Rs.5,492 (as compared to Rs.6,181 and Rs.5,447 for the years ended March 31, 2017 and 2016, respectively).

Effective July 1, 2017, a Goods and Services Tax ("GST") was introduced in India, replacing the excise duty and various other taxes. Following the principles of IAS 18, revenues from operations are disclosed net of GST. For (2) periods prior to July 1, 2017, the excise duty amount was recorded as part of revenues with a corresponding amount recorded in the cost of revenues. Accordingly, revenues and cost of revenues for the year ended March 31, 2018 are not comparable with those of the previous years presented. Tabulated below are the details of excise duty included in revenues:



|                                  | For the Year Ended March 31, |         |         |
|----------------------------------|------------------------------|---------|---------|
|                                  | 2018                         | 2017    | 2016    |
| Excise duty included in revenues | Rs. 173                      | Rs. 939 | Rs. 842 |

**Analysis of revenues by geography:**

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

|               | For the Year Ended March 31, |             |             |
|---------------|------------------------------|-------------|-------------|
| Country       | 2018                         | 2017        | 2016        |
| India         | Rs. 25,209                   | Rs. 24,927  | Rs. 23,913  |
| United States | 68,124                       | 69,816      | 81,154      |
| Russia        | 12,610                       | 11,547      | 10,640      |
| Others        | 36,085                       | 34,519      | 39,001      |
|               | Rs. 142,028                  | Rs. 140,809 | Rs. 154,708 |

**Analysis of revenues within the Global Generics segment:**

An analysis of revenues by therapeutic areas in the Company's Global Generics segment is given below:

|                        | For the Year Ended March 31, |             |             |
|------------------------|------------------------------|-------------|-------------|
|                        | 2018                         | 2017        | 2016        |
| Gastrointestinal       | Rs. 19,153                   | Rs. 21,190  | Rs. 21,253  |
| Oncology               | 16,999                       | 17,054      | 19,410      |
| Cardiovascular         | 16,501                       | 15,553      | 19,009      |
| Pain Management        | 12,898                       | 14,323      | 16,240      |
| Central Nervous System | 12,509                       | 12,749      | 14,739      |
| Anti-Infective         | 6,557                        | 7,189       | 12,711      |
| Others                 | 29,397                       | 27,351      | 24,700      |
| Total                  | Rs. 114,014                  | Rs. 115,409 | Rs. 128,062 |

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****(in millions, except share and per share data)****5. Segment reporting (continued)****Analysis of revenues within the PSAI segment:**

An analysis of revenues by therapeutic areas in the Company's PSAI segment is given below:

|                        | For the Year Ended March 31, |            |            |
|------------------------|------------------------------|------------|------------|
|                        | 2018                         | 2017       | 2016       |
| Cardiovascular         | Rs. 6,191                    | Rs. 5,078  | Rs. 5,077  |
| Pain Management        | 3,228                        | 3,290      | 4,085      |
| Central Nervous System | 2,331                        | 2,758      | 3,021      |
| Anti-Infective         | 1,968                        | 1,859      | 2,015      |
| Dermatology            | 1,606                        | 1,606      | 1,485      |
| Oncology               | 1,650                        | 1,534      | 2,570      |
| Others                 | 5,018                        | 5,152      | 4,126      |
| Total                  | Rs. 21,992                   | Rs. 21,277 | Rs. 22,379 |

**Analysis of assets by geography:**

The following table shows the distribution of the Company's non-current assets (other than financial instruments and deferred tax assets) by country, based on the location of assets:

|               | As of March 31, |            |
|---------------|-----------------|------------|
| Country       | 2018            | 2017       |
| India         | Rs. 57,818      | Rs. 57,997 |
| Switzerland   | 32,287          | 31,543     |
| United States | 8,361           | 8,660      |
| Germany       | 2,876           | 3,220      |

|        |             |             |
|--------|-------------|-------------|
| Others | 7,515       | 6,213       |
|        | Rs. 108,857 | Rs. 107,633 |

The following table shows the distribution of the Company's property, plant and equipment including capital work in progress and intangible assets acquired during the year (other than goodwill arising on business combination) by country, based on the location of assets:

| Country       | For the Year Ended March 31, |            |
|---------------|------------------------------|------------|
|               | 2018                         | 2017       |
| India         | Rs. 7,807                    | Rs. 10,545 |
| Switzerland   | 1,100                        | 26,639     |
| United States | 723                          | 2,657      |
| Others        | 1,284                        | 728        |
|               | Rs. 10,914                   | Rs. 40,569 |

**Analysis of depreciation and amortization, included in cost of revenues, by reportable segments:**

|                      | For the Year Ended March 31, |           |           |
|----------------------|------------------------------|-----------|-----------|
|                      | 2018                         | 2017      | 2016      |
| Global Generics      | Rs. 3,606                    | Rs. 3,381 | Rs. 2,742 |
| PSAI                 | 2,923                        | 2,674     | 2,437     |
| Proprietary Products | -                            | -         | -         |
| Others               | 66                           | 62        | 62        |
|                      | Rs. 6,595                    | Rs. 6,117 | Rs. 5,241 |

***Information about major customers***

Revenues from two customers of the Company's Global Generics segment were Rs.13,486 and Rs.10,755, representing approximately 9% and 8%, respectively, of the Company's total revenues for the year ended March 31, 2018.

Revenues from one customer of the Company's Global Generics segment were Rs.22,760, representing approximately 16% of the Company's total revenues for the year ended March 31, 2017.

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****(in millions, except share and per share data)****6. Property, plant and equipment**

The following is a summary of the changes in carrying value of property, plant and equipment.

| Particulars                                 | Land      | Buildings  | Plant and equipment | Computer equipment | Furniture, fixtures and office equipment | Vehicles | Total       |
|---|-----------|------------|---------------------|--------------------|--|----------|-------------|
| <b>Gross carrying value</b>                 |           |            |                     |                    |  |          |             |
| Balance as at April 1, 2016                 | Rs. 3,814 | Rs. 19,095 | Rs. 54,393          | Rs. 2,246          | Rs. 2,265                                | Rs. 777  | Rs. 82,590  |
| Additions                                   | 98        | 2,395      | 9,090               | 566                | 205                                      | 96       | 12,450      |
| Disposals                                   | -         | (34 )      | (521 )              | (70 )              | (19 )                                    | (120 )   | (764 )      |
| Effect of changes in foreign exchange rates | (44 )     | (165 )     | (533 )              | (15 )              | (23 )                                    | (2 )     | (782 )      |
| Balance as at March 31, 2017                | Rs. 3,868 | Rs. 21,291 | Rs. 62,429          | Rs. 2,727          | Rs. 2,428                                | Rs. 751  | Rs. 93,494  |
| Balance as at April 1, 2017                 | Rs. 3,868 | Rs. 21,291 | Rs. 62,429          | Rs. 2,727          | Rs. 2,428                                | Rs. 751  | Rs. 93,494  |
| Additions                                   | 324       | 1,030      | 5,458               | 313                | 194                                      | 293      | 7,612       |
| Disposals                                   | (7 )      | (42 )      | (1,071 )            | (125 )             | (29 )                                    | (275 )   | (1,549 )    |
| Effect of changes in foreign exchange rates | 31        | 162        | 399                 | 15                 | 21                                       | 1        | 629         |
| Balance as at March 31, 2018                | Rs. 4,216 | Rs. 22,441 | Rs. 67,215          | Rs. 2,930          | Rs. 2,614                                | Rs. 770  | Rs. 100,186 |
| <b>Accumulated Depreciation</b>             |           |            |                     |                    |  |          |             |
| Balance as at April 1, 2016                 | Rs. -     | Rs. 4,302  | Rs. 27,982          | Rs. 1,553          | Rs. 1,953                                | Rs. 389  | Rs. 36,179  |
| Depreciation for the year                   | -         | 896        | 5,971               | 378                | 231                                      | 120      | 7,596       |
| Impairment loss                             | 38        | 214        | 69                  | 10                 | -  | -        | 331         |
| Disposals                                   | -         | (23 )      | (499 )              | (67 )              | (14 )                                    | (116 )   | (719 )      |
| Effect of changes in foreign exchange rates | -         | (71 )      | (298 )              | (13 )              | (24 )                                    | (1 )     | (407 )      |
| Balance as at March 31, 2017                | Rs. 38    | Rs. 5,318  | Rs. 33,225          | Rs. 1,861          | Rs. 2,146                                | Rs. 392  | Rs. 42,980  |
| Balance as at April 1, 2017                 | Rs. 38    | Rs. 5,318  | Rs. 33,225          | Rs. 1,861          | Rs. 2,146                                | Rs. 392  | Rs. 42,980  |
| Depreciation for the year                   | -         | 972        | 6,455               | 373                | 240                                      | 245      | 8,285       |
| Disposals                                   | -         | (29 )      | (955 )              | (105 )             | (39 )                                    | (264 )   | (1,392 )    |

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|   |           |            |            |           |           |         |            |
|---|-----------|------------|------------|-----------|-----------|---------|------------|
| Effect of changes in foreign exchange rates | -         | 82         | 260        | 12        | 17        | 1       | 372        |
| Balance as at March 31, 2018                | Rs. 38    | Rs. 6,343  | Rs. 38,985 | Rs. 2,141 | Rs. 2,364 | Rs. 374 | Rs. 50,245 |
| Net carrying value                          |           |            |            |           |           |         |            |
| As at April 1, 2016                         | Rs. 3,814 | Rs. 14,793 | Rs. 26,411 | Rs. 693   | Rs. 312   | Rs. 388 | Rs. 46,411 |
| As at March 31, 2017                        | Rs. 3,830 | Rs. 15,973 | Rs. 29,204 | Rs. 866   | Rs. 282   | Rs. 359 | Rs. 50,514 |
| Add: Capital-work-in-progress               |           |            |            |           |           |         | Rs. 6,646  |
| Total as at March 31, 2017                  |           |            |            |           |           |         | Rs. 57,160 |
| As at March 31, 2018                        | Rs. 4,178 | Rs. 16,098 | Rs. 28,230 | Rs. 789   | Rs. 250   | Rs. 396 | Rs. 49,941 |
| Add: Capital-work-in-progress               |           |            |            |           |           |         | Rs. 7,928  |
| Total as at March 31, 2018                  |           |            |            |           |           |         | Rs. 57,869 |

*Impairment losses recorded for the year ended March 31, 2017*

During the three months ended March 31, 2017, the Company experienced a significant decline in the expected cash flows of some of the products forming part of a cash generating unit ("CGU") under its Global Generics segment. Consequently, the Company, following the guidance under IAS 36 "Impairment of assets", determined that the estimated recoverable amount of the CGU is lower than its carrying cost. Accordingly, an amount of Rs.335 (including Rs.4 towards capital-work-in-progress) was recorded as an impairment for the three months ended March 31, 2017. Such impairment charge was recognized and presented under "cost of revenues".

The recoverable amounts of the above cash generating units have been assessed using a value-in-use model. Key assumptions upon which the Company has based its determinations of value-in-use include:

- a) Estimated cash flows for the remaining useful life, based on management's projections.
- b) The terminal value is considered to be zero.
- c) The post-tax discount rates used are based on the Company's weighted average cost of capital. The post-tax discount rate used was 6.68%. The pre-tax discount rate was 9.02%.

*Capital commitments*

As of March 31, 2018 and 2017, the Company was committed to spend Rs.3,788 and Rs.5,256, respectively, under agreements to purchase property, plant and equipment. This amount is net of capital advances paid in respect of such purchase commitments.

F-29

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**6. Property, plant and equipment (continued)**

*Interest capitalization*

During the years ended March 31, 2018 and 2017, the Company capitalized interest cost of Rs.71 and Rs.65, respectively, with respect to qualifying assets. The rate for capitalization of interest cost for the years ended March 31, 2018 and 2017 was approximately 2.76% and 2.14%, respectively.

*Assets acquired under finance leases*

Property, plant and equipment include Rs.502 and Rs.511 of assets acquired (net of accumulated depreciation) under finance leases as of March 31, 2018 and 2017, respectively.

**7. Goodwill**

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

The following table presents the changes in goodwill during the years ended March 31, 2018 and 2017:

|                        | As of March 31, |           |
|------------------------|-----------------|-----------|
|                        | 2018            | 2017      |
| Opening balance, gross | Rs.20,026       | Rs.20,122 |

|  |          |          |
|--|----------|----------|
| Goodwill arising on business combinations during the year <sup>(1)</sup> | -        | 10       |
| Effect of translation adjustments  | 193      | (106 )   |
| Impairment loss <sup>(2)</sup>   | (16,274) | (16,274) |
| Closing balance  | Rs.3,945 | Rs.3,752 |

(1)Rs.10 as of March 31, 2017 represents goodwill arising from the acquisition of Imperial Credit Private Limited.

The impairment loss of Rs.16,274 includes Rs.16,003 pertaining to the Company's German subsidiary, betapharm (2)Arzneimittel GmbH, which is part of the Company's Global Generics segment. This impairment loss was recorded for the years ended March 31, 2009 and 2010.

For the purpose of impairment testing, goodwill is allocated to a cash generating unit, representing the lowest level within the Company at which goodwill is monitored for internal management purposes and which is not higher than the Company's operating segment.

The carrying amount of goodwill (other than those arising upon investment in a joint venture) was allocated to the cash generating units as follows:

|  | As of March 31, |          |
|--|-----------------|----------|
|  | 2018            | 2017     |
| PSAI-Active Pharmaceutical Operations    | Rs.997          | Rs.997   |
| Global Generics-Complex Injectables      | 1,339           | 1,148    |
| Global Generics-North America Operations | 995             | 995      |
| Global Generics-Branded Formulations     | 491             | 491      |
| Others                                   | 123             | 121      |
|  | Rs.3,945        | Rs.3,752 |

The recoverable amounts of the above cash generating units have been assessed using a value-in-use model. Value in use is generally calculated as the net present value of the projected post-tax cash flows plus a terminal value of the cash generating unit to which the goodwill is allocated. Initially, a post-tax discount rate is applied to calculate the net present value of the post-tax cash flows. Key assumptions upon which the Company has based its determinations of value-in-use include:

- a) Estimated cash flows for five years, based on management's projections.

A terminal value arrived at by extrapolating the last forecasted year cash flows to perpetuity, using a constant b)long-term growth rate of 0%. This long-term growth rate takes into consideration external macroeconomic sources of data. Such long-term growth rate considered does not exceed that of the relevant business and industry sector.



**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in millions, except share and per share data)

**7. Goodwill (continued)**

c) The after tax discount rates used are based on the Company's weighted average cost of capital.

d) The after tax discount rates used range from 6.97% to 13.74% for various cash generating units. The pre-tax discount rates range from 9.32% to 33.43%.

The Company believes that any reasonably possible change in the key assumptions on which a recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

**8. Other intangible assets**

The following is a summary of changes in the carrying value of intangible assets:

|   | Trademarks<br>with finite<br>useful life | Product<br>related<br>intangibles | Technology<br>related<br>intangibles | Customer<br>related<br>intangibles | Others    | Total      |
|---|--|-----------------------------------|--------------------------------------|------------------------------------|-----------|------------|
| Gross carrying amount                       |  |                                   |                                      |                                    |           |            |
| Balance as at April 1, 2016                 | Rs. 10,178                               | Rs. 37,740                        | Rs. 2,847                            | Rs. 1,100                          | Rs. 2,295 | Rs. 54,160 |
| Additions <sup>(1)</sup>                    | 1,148                                    | 27,419                            | 27                                   | -                                  | 611       | 29,205     |
| De-recognitions <sup>(2)</sup>              | (32 )                                    | (269 )                            | -                                    | (706 )                             | (124 )    | (1,131 )   |
| Effect of changes in foreign exchange rates | (617 )                                   | (2,265 )                          | (230 )                               | (37 )                              | (19 )     | (3,168 )   |
| Balance as at March 31, 2017                | Rs. 10,677                               | Rs. 62,625                        | Rs. 2,644                            | Rs. 357                            | Rs. 2,763 | Rs. 79,066 |
| Balance as at April 1, 2017                 | Rs. 10,677                               | Rs. 62,625                        | Rs. 2,644                            | Rs. 357                            | Rs. 2,763 | Rs. 79,066 |
| Additions                                   | -  | 2,377                             | -                                    | -                                  | 228       | 2,605      |
|   | 1,162                                    | 2,496                             | 206                                  | -                                  | 6         | 3,870      |

## Effect of changes in foreign exchange rates

|   |            |            |           |           |           |            |
|---|------------|------------|-----------|-----------|-----------|------------|
| Balance as at March 31, 2018                | Rs. 11,839 | Rs. 67,498 | Rs. 2,850 | Rs. 357   | Rs. 2,997 | Rs. 85,541 |
| Amortization/impairment loss                |            |            |           |           |           |            |
| Balance as at April 1, 2016                 | Rs. 7,686  | Rs. 22,599 | Rs. 1,253 | Rs. 1,085 | Rs. 741   | Rs. 33,364 |
| Amortization for the year                   | 578        | 2,304      | 443       | 15        | 341       | 3,681      |
| Impairment loss                             | 32         | 40         | 38        | -         | -         | 110        |
| De-recognitions <sup>(2)</sup>              | (32 )      | (269 )     | -         | (706 )    | (124 )    | (1,131 )   |
| Effect of changes in foreign exchange rates | (457 )     | (1,215 )   | (159 )    | (37 )     | (15 )     | (1,883 )   |
| Balance as at March 31, 2017                | Rs. 7,807  | Rs. 23,459 | Rs. 1,575 | Rs. 357   | Rs. 943   | Rs. 34,141 |
| Balance as at April 1, 2017                 |            |            |           |           |           |            |
| Balance as at April 1, 2017                 | Rs. 7,807  | Rs. 23,459 | Rs. 1,575 | Rs. 357   | Rs. 943   | Rs. 34,141 |
| Amortization for the year                   | 591        | 2,145      | 403       | -         | 286       | 3,425      |
| Impairment loss                             | -          | 53         | -         | -         | -         | 53         |
| Effect of changes in foreign exchange rates | 885        | 2,204      | 167       | -         | 1         | 3,257      |
| Balance as at March 31, 2018                | Rs. 9,283  | Rs. 27,861 | Rs. 2,145 | Rs. 357   | Rs. 1,230 | Rs. 40,876 |
| Net carrying amount                         |            |            |           |           |           |            |
| As at April 1, 2016                         | Rs. 2,492  | Rs. 15,141 | Rs. 1,594 | Rs. 15    | Rs. 1,554 | Rs. 20,796 |
| As at March 31, 2017                        | Rs. 2,870  | Rs. 39,166 | Rs. 1,069 | Rs. -     | Rs. 1,820 | Rs. 44,925 |
| As at March 31, 2018                        | Rs. 2,556  | Rs. 39,637 | Rs. 705   | Rs. -     | Rs. 1,767 | Rs. 44,665 |

<sup>(1)</sup> Additions during the year ended March 31, 2017 primarily consists of: (a) Rs.23,366, representing the consideration paid to Teva Pharmaceutical Industries Limited (“Teva”) and an affiliate of Allergan Plc (“Allergan”) to acquire eight Abbreviated New Drug Applications (“ANDAs”) in the United States (refer to Note 33 of these consolidated financial statements for further details); and (b) Rs.3,159, representing the consideration for the acquisition of exclusive U.S. rights for the development and commercialization of a clinical stage oral new chemical entity from Xenoport, Inc. (refer to Note 34 of these consolidated financial statements for further details).

<sup>(2)</sup> During the year ended March 31, 2017, the Company derecognized certain intangible assets which were fully amortized and from which no future economic benefits were expected, either from use or from their disposal. Accordingly, an amount of Rs.1,131 was reduced both from gross carrying amount and accumulated amortization.

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in millions, except share and per share data)

**8. Other intangible assets (continued)***In-process research and development assets ("IPR&D"):*

Tabulated below is the reconciliation of amounts relating to in-process research and development assets as at the beginning and at the end of the year:

|  | As of March 31, |           |
|--|-----------------|-----------|
|  | 2018            | 2017      |
| Opening balance                                      | Rs.27,150       | Rs.1,096  |
| Add: Additions during the year <sup>(1)</sup>        | 523             | 26,858    |
| Less: Capitalizations during the year <sup>(2)</sup> | (778 )          | -         |
| Less: Impairments during the year <sup>(3)</sup>     | -               | (38 )     |
| Effect of changes in exchange rates                  | 132             | (766 )    |
| Closing balance                                      | Rs.27,027       | Rs.27,150 |

(1) Additions during the year ended March 31, 2017 primarily consists of:

a. Rs.23,366, representing the consideration paid to Teva and an affiliate of Allergan to acquire eight ANDAs in the United States (refer to Note 33 of these consolidated financial statements for further details); and

b. Rs.3,159, representing the consideration for the acquisition of exclusive U.S. rights for the development and commercialization of a clinical stage oral new chemical entity from XenoPort, Inc. (refer to Note 34 of these consolidated financial statements for further details).

eazitimibe and simvastatin tablets, representing one of the eight ANDAs acquired from Teva, was launched during (2) the three months ended June 30, 2017. Accordingly, the Company reclassified the amount from IPR&D to product related intangibles.

(3) Refer to “Impairment losses recorded for the year ended March 31, 2017” in this Note 8 for further details.

*Amortization of other intangible assets:*

|  | For the Year Ended March 31, |           |           |
|--|------------------------------|-----------|-----------|
|  | 2018                         | 2017      | 2016      |
| Selling, general and administrative expenses | Rs. 3,029                    | Rs. 3,198 | Rs. 3,262 |
| Cost of revenues                             | 264                          | 300       | 110       |
| Research and development expenses            | 132                          | 183       | 98        |
|  | Rs. 3,425                    | Rs. 3,681 | Rs. 3,470 |

*Interest capitalization*

During the years ended March 31, 2018 and 2017, the Company capitalized interest cost of Rs.458 and Rs.258, respectively, with respect to certain qualifying assets. The rate for capitalization of interest cost for the years ended March 31, 2018 and 2017 ranged from 0.81% to 2.76% and from 0.91% to 2.14%, respectively.

*Impairment loss on other intangible assets:*

|  | For the Year Ended March 31, |         |         |
|--|------------------------------|---------|---------|
|  | 2018                         | 2017    | 2016    |
| Selling, general and administrative expenses | Rs. 53                       | Rs. 72  | Rs. 61  |
| Research and development expenses            | -                            | 38      | 133     |
| Cost of revenues                             | -                            | -       | -       |
|  | Rs. 53                       | Rs. 110 | Rs. 194 |

*Impairment losses recorded for the year ended March 31, 2018*

As a result of the Company’s decision to discontinue a few products pertaining to its Global Generics segment, product related intangibles of Rs.20 and Rs.33 were recorded as impairment loss for the year ended March 31, 2018 under “Selling, general and administrative expenses” in the consolidated income statement.

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**8. Other intangible assets (continued)**

*Impairment losses recorded for the year ended March 31, 2017*

As a result of the Company's decision to discontinue further development of certain IPR&D assets pertaining to its Proprietary Products segment and PSAI segment, Rs.27 and Rs.11, respectively, were recorded as impairment loss for the year ended March 31, 2017 under "Research and development expenses" in the consolidated income statement.

The balance impairment loss of Rs.72 pertains to a write down of certain brands and product related intangibles forming part of the Company's Global Generics segment. The same was recorded under "Selling, general and administrative expenses" in the consolidated income statement.

*Impairment losses recorded for the year ended March 31, 2016*

As a result of the Company's decision to discontinue further development of certain IPR&D assets pertaining to its Proprietary Products segment and Global Generics segment, Rs.100 and Rs.33, respectively, was recorded as impairment loss for the year ended March 31, 2016 under "Research and development expenses" in the consolidated income statement.

The balance impairment loss of Rs.61 pertains to a write down of certain customer and product related intangibles forming part of the Company's Global Generics segment, which was recorded under "Selling, general and administrative expenses" in the consolidated income statement.

**9. Investment in equity accounted investees**

Kunshan Rotam Reddy Pharmaceuticals Co. Limited (“Reddy Kunshan”) is engaged in manufacturing and marketing of finished dosages in China. The Company’s interest in Reddy Kunshan was 51.3% as of March 31, 2018 and 2017. Four directors of the Company are on the board of Reddy Kunshan, which consists of eight directors. Under the terms of the joint venture agreement, all major decisions with respect to operating activities, significant financing and other activities are taken by the approval of at least five of the eight directors of Reddy Kunshan’s board. As the Company does not control Reddy Kunshan’s board and the other partners have significant participation rights, the Company’s interest in Reddy Kunshan has been accounted for under the equity method of accounting under IFRS 11.

Summary financial information of Reddy Kunshan, as translated into the reporting currency of the Company and not adjusted for the percentage ownership held by the Company, is as follows:

|  | As of/for the Year Ended March 31, |           |           |
|--|------------------------------------|-----------|-----------|
|  | 2018                               | 2017      | 2016      |
| Ownership  | 51.3 %                             | 51.3 %    | 51.3 %    |
| Total current assets   | Rs. 4,933                          | Rs. 3,385 | Rs. 2,876 |
| Total non-current assets   | 347                                | 296       | 377       |
| Total assets   | Rs. 5,280                          | Rs. 3,681 | Rs. 3,253 |
| Equity   | Rs. 3,600                          | Rs. 2,603 | Rs. 2,129 |
| Total current liabilities  | 1,680                              | 1,078     | 1,124     |
| Total equity and liabilities   | Rs. 5,280                          | Rs. 3,681 | Rs. 3,253 |
| Revenues   | Rs. 5,482                          | Rs. 4,980 | Rs. 4,246 |
| Expenses   | 4,792                              | 4,295     | 3,800     |
| Profit for the year  | Rs. 690                            | Rs. 685   | Rs. 446   |
| Company’s share of profits for the year  | Rs. 354                            | Rs. 351   | Rs. 229   |
| Carrying value of the Company’s investment <sup>(1)</sup>                      | Rs. 2,029                          | Rs. 1,519 | Rs. 1,309 |
| Translation adjustment arising out of translation of foreign currency balances | Rs. 255                            | Rs. 97    | Rs. 239   |

(1) Includes Rs.181 representing the goodwill on acquisition of investment.

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****(in millions, except share and per share data)****10. Other investments**

Other investments consist of investments in units of mutual funds, bonds, commercial paper, equity securities and term deposits (i.e., certificates of deposit having an original maturity period exceeding 3 months) with banks. The details of such investments as of March 31, 2018 are as follows:

|                                     | Cost       | Gain recognized<br>directly in equity | Fair value/<br>amortized<br>cost <sup>(2)</sup> |
|-------------------------------------|------------|---------------------------------------|---|
| In units of mutual funds            | Rs. 14,703 | Rs. 75                                | Rs. 14,778                                      |
| In equity securities <sup>(1)</sup> | 2,703      | (1,508 )                              | 1,195   |
| In bonds                            | 4,633      | -                                     | 4,633   |
| In commercial paper                 | 232        | -                                     | 232   |
| Term deposits with banks            | 41         | -                                     | 41  |
|                                     | Rs. 22,312 | Rs. (1,433 )                          | Rs. 20,879                                      |
| Current portion                     |            |                                       |   |
| In units of mutual funds            | Rs. 14,703 | Rs. 75                                | Rs. 14,778                                      |
| In bonds                            | 3,279      | -                                     | 3,279   |
| In commercial paper                 | 232        | -                                     | 232   |
| Term deposits with banks            | 41         | -                                     | 41  |
|                                     | Rs. 18,255 | Rs. 75                                | Rs. 18,330                                      |
| Non-current portion                 |            |                                       |   |
| In equity securities <sup>(1)</sup> | 2,703      | (1,508 )                              | 1,195   |
| In bonds                            | 1,354      | -                                     | 1,354   |
|                                     | Rs. 4,057  | Rs. (1,508 )                          | Rs. 2,549                                       |

<sup>(1)</sup> Primarily represents the shares of Curis, Inc. Refer to Note 31 of these consolidated financial statements for further details.

<sup>(2)</sup> Interest accrued but not due on bonds, commercial paper and term deposits with banks is included in other current assets.

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

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

<sup>(1)</sup> Primarily represents the shares of Curis, Inc. Refer to Note 31 of these consolidated financial statements for further details.

<sup>(2)</sup> Interest accrued but not due on term deposits with banks is included in other current assets.

## 11. Inventories

Inventories consist of the following:

|                                      | As of March 31, |            |
|--------------------------------------|-----------------|------------|
|                                      | 2018            | 2017       |
| Raw materials                        | Rs. 7,294       | Rs. 7,226  |
| Packing materials, stores and spares | 2,394           | 2,315      |
| Work-in-progress                     | 7,175           | 6,614      |
| Finished goods                       | 12,226          | 12,374     |
|                                      | Rs. 29,089      | Rs. 28,529 |



**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****(in millions, except share and per share data)****11. Inventories (continued)**

Details of inventories recognized in the consolidated income statement are as follows:

|   | For the Year Ended March 31, |           |           |
|---|------------------------------|-----------|-----------|
|   | 2018                         | 2017      | 2016      |
| Raw materials, consumables and changes in finished goods and work in progress | Rs.32,410                    | Rs.27,165 | Rs.30,305 |
| Inventory write-downs   | 2,946                        | 3,085     | 2,746     |

**12. Trade and other receivables**

|  | As of March 31, |           |
|--|-----------------|-----------|
|  | 2018            | 2017      |
| Current  |                 |           |
| Trade and other receivables, gross                       | Rs.41,569       | Rs.38,926 |
| Less: Allowance for doubtful trade and other receivables | (952 )          | (861 )    |
| Trade and other receivables, net                         | Rs.40,617       | Rs.38,065 |
| Non-current  |                 |           |
| Trade and other receivables, gross <sup>(1)</sup>        | Rs.169          | Rs.206    |
| Less: Allowance for doubtful trade and other receivables | -               | -         |
| Trade and other receivables, net                         | Rs.169          | Rs.206    |

<sup>(1)</sup> Represents amounts receivable pursuant to an out-licensing arrangement with a customer. As these amounts are not expected to be realized within twelve months from the end of the reporting date, they are disclosed as non-current.

The Company maintains an allowance for impairment of doubtful accounts based on financial condition of the customer, aging of the customer accounts receivable and historical experience of collections from customers. The details of the allowance for impairment of trade account receivables are given below:

|  | For the Year Ended March 31, |         |
|--|------------------------------|---------|
|  | 2018                         | 2017    |
| Balance at the beginning of the year                             | Rs. 861                      | Rs. 789 |
| Provision for doubtful trade and other receivables, net          | 146                          | 138     |
| Trade and other receivables written off and exchange differences | (55 )                        | (66 )   |
| Balance at the end of the year                                   | Rs. 952                      | Rs. 861 |

### 13. Other assets

Other assets consist of the following:

|  | As of March 31, |            |
|--|-----------------|------------|
|  | 2018            | 2017       |
| Current  |                 |            |
| Balances and receivables from statutory authorities <sup>(1)</sup> | Rs. 6,741       | Rs. 4,151  |
| Export benefits receivable <sup>(2)</sup>                          | 2,842           | 3,521      |
| Prepaid expenses   | 761             | 712        |
| Others <sup>(3)</sup>  | 3,957           | 3,586      |
|  | Rs. 14,301      | Rs. 11,970 |
| Non-current  |                 |            |
| Deposits   | Rs. 664         | Rs. 651    |
| Others   | 366             | 332        |
|  | Rs. 1,030       | Rs. 983    |

Balances and receivables from statutory authorities primarily consist of amounts receivable from the goods and service tax ("GST"), excise duty, value added tax and customs authorities of India and the unutilized GST input tax credits, excise duty, service tax and value added tax input credits (subsumed under GST input tax credits effective as of July 1, 2017) on purchases. These are regularly utilized to offset the GST liability (or, prior to July 1, 2017, liability for excise duty, value added tax, etc.) on goods produced by and services provided by the Company. Accordingly, these balances have been classified as current assets.

<sup>(2)</sup> Export benefits receivables primarily consist of amounts receivable from various government authorities of India towards incentives on export sales made by the Company.

<sup>(3)</sup> Others primarily includes advances given to vendors and employees, interest accrued but not due on investments, and insurance claims receivable.

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****(in millions, except share and per share data)****14. Cash and cash equivalents**

Cash and cash equivalents consist of the following:

|  | As of March 31, |          |
|--|-----------------|----------|
|  | 2018            | 2017     |
|  | Rs.2            | Rs.3     |
| Cash balances  |                 |          |
| Balances with banks <sup>(1) (2)</sup>                           | 1,454           | 1,131    |
| Term deposits with banks (original maturities up to 3 months)    | 1,182           | 2,732    |
| Cash and cash equivalents in the statement of financial position | 2,638           | 3,866    |
| Bank overdrafts used for cash management purposes                | 96              | 87       |
| Cash and cash equivalents in the statement of cash flow          | Rs.2,542        | Rs.3,779 |

<sup>(1)</sup> Balances with banks as of March 31, 2018 included restricted cash of Rs.86, which consisted of:

·Rs.72, representing amounts in the Company's unclaimed dividend and debenture interest accounts; and

·Rs.14, representing other restricted cash amounts.

<sup>(2)</sup> Balances with banks as of March 31, 2017 included restricted cash of Rs.177, which consisted of:

·Rs.64, representing amounts in the Company's unclaimed dividend and debenture interest accounts;

·Rs.38, representing cash and cash equivalents of the Company's subsidiary in Venezuela, which are subject to foreign exchange controls (refer to Note 38 of these consolidated financial statements for further details);

Rs.49, representing the portion of the purchase consideration deposited in an escrow account, pursuant to an acquisition of an intangible asset; and

Rs.26, representing other restricted cash amounts.

## 15. Equity

|  | For the Year Ended<br>March 31, 2018 |           | For the Year Ended<br>March 31, 2017 |           |
|--|--------------------------------------|-----------|--------------------------------------|-----------|
|  | Number                               | Amount    | Number                               | Amount    |
| Authorized share capital                           | 240,000,000                          | Rs. 1,200 | 240,000,000                          | Rs. 1,200 |
| Fully paid up share capital                        |                                      |           |                                      |           |
| Opening number of equity shares/share capital      | 165,741,713                          | Rs. 829   | 170,607,653                          | Rs. 853   |
| Add: Issue of equity shares on exercise of options | 169,194                              | 1         | 211,564                              | 1         |
| Less: Buyback of equity shares                     | -                                    | -         | (5,077,504 )                         | (25 )     |
| Closing number of equity shares/share capital      | 165,910,907                          | Rs. 830   | 165,741,713                          | Rs. 829   |

The Company presently has only one class of equity shares and the par value of each share is Rs.5. For all matters submitted to vote in a shareholders meeting of the Company, every holder of an equity share, as reflected in the records of the Company as on the record date set for the shareholders meeting, shall have one vote in respect of each share held.

Should the Company declare and pay any dividends, such dividends will be paid in Indian rupees to each holder of equity shares in proportion to the number of shares held to the total equity shares outstanding as on that date. Indian law on foreign exchange governs the remittance of dividends outside India.

In the event of liquidation of the Company, all preferential amounts, if any, shall be discharged by the Company. The remaining assets of the Company shall be distributed to the holders of equity shares in proportion to the number of shares held to the total equity shares outstanding as on that date.

Final dividends on equity shares (including dividend tax on distribution of such dividends) are recorded as a liability on the date of their approval by the shareholders and interim dividends are recorded as a liability on the date of declaration by the Company's Board of Directors. The details of dividends paid by the Company are as follows:

|  | For the Year Ended March 31, |        |        |
|--|------------------------------|--------|--------|
|  | 2018                         | 2017   | 2016   |
| Dividend per share                             | Rs. 20                       | Rs. 20 | Rs. 20 |
| Dividend distribution tax on the dividend paid | 675                          | 78     | 695    |

|                               |       |       |       |
|-------------------------------|-------|-------|-------|
| Dividend paid during the year | 3,317 | 3,312 | 3,411 |
|-------------------------------|-------|-------|-------|

F-36

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**15. Equity (continued)**

*Buyback of equity shares*

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

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

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

*Proposed dividend*

At the Company's Board of Directors' meeting held on May 22, 2018, the Board proposed a dividend of Rs.20 per share and aggregating to Rs.3,318, which is subject to the approval of the Company's shareholders. Upon such approval, there will be an additional cash outflow of Rs.682 for payment of dividend distribution tax thereon.

**16. Earnings per share**

The calculation of basic and diluted earnings per share for the years ended March 31, 2018, 2017 and 2016 was based on the profit attributable to equity shareholders of Rs.9,806, Rs.12,039 and Rs.20,013, respectively.

The weighted average number of equity shares outstanding, used for calculating the basic earnings per share, are as follows:

|  | For the Year Ended March 31, |              |             |
|--|------------------------------|--------------|-------------|
|  | 2018                         | 2017         | 2016        |
| Issued equity shares as at April 1                   | 165,741,713                  | 170,607,653  | 170,381,174 |
| Effect of shares issued on exercise of stock options | 103,695                      | 126,277      | 166,469     |
| Effect of buyback of equity shares                   | -                            | (4,084,987 ) | -           |
| Weighted average number of equity shares at March 31 | 165,845,408                  | 166,648,943  | 170,547,643 |
| Earnings per share – Basic                           | Rs.59.13                     | Rs.72.24     | Rs.117.34   |

The weighted average number of equity shares outstanding, used for calculating the diluted earnings per share, are as follows:

|  | For the Year Ended March 31, |             |             |
|--|------------------------------|-------------|-------------|
|  | 2018                         | 2017        | 2016        |
| Weighted average number of equity shares (Basic)   | 165,845,408                  | 166,648,943 | 170,547,643 |
| Dilutive effect of stock options outstanding       | 340,144                      | 348,733     | 525,137     |
| Weighted average number of equity shares (Diluted) | 166,185,552                  | 166,997,675 | 171,072,780 |
| Earnings per share – Diluted                       | Rs.59.00                     | Rs.72.09    | Rs.116.98   |

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in millions, except share and per share data)

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

Short-term borrowings primarily consist of “packing credit” loans drawn by the parent company and other unsecured loans drawn by certain of its subsidiaries in Switzerland, the United States, Russia and Ukraine.

Short term borrowings consist of the following:

|                                   | As at March 31, |            |
|-----------------------------------|-----------------|------------|
|                                   | 2018            | 2017       |
| Packing credit borrowings         | Rs. 21,008      | Rs. 18,699 |
| Other foreign currency borrowings | 4,458           | 24,840     |
|                                   | Rs. 25,466      | Rs. 43,539 |

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

|                                   | As at March 31, |                                       | 2017  |                               |
|-----------------------------------|-----------------|---------------------------------------|-------|-------------------------------|
|                                   | 2018            | Interest Rate                         | 2017  | Interest Rate                 |
| Packing credit borrowings         | USD             | 1 Month LIBOR + (30) to 30 bps        | USD   | 1 Month LIBOR + (30) to 1 bps |
|                                   | -               | -                                     | USD   | 0.01 %                        |
|                                   | -               | -                                     | INR   | T-Bill + 30bps                |
|                                   | INR             | 6.00                                  | % INR | 6.92% to 6.95 %               |
|                                   | RUB             | 6.75                                  | % RUB | 9.95 %                        |
| Other foreign currency borrowings | USD             | 1 Month/3 Months LIBOR + 65 to 85 bps | USD   | 1 Month LIBOR + 40 to 60 bps  |
|                                   | RUB             | 8.20                                  | % RUB | 10.48 %                       |



UAH 18.00 % - -

(1) “INR” means Indian rupees, “RUB” means Russian roubles, and “UAH” means Ukrainian hryvnia.

*Short-term borrowing by Dr. Reddy’s Laboratories, SA*

During the three months ended September 30, 2016, Dr. Reddy’s Laboratories, SA, one of the Company’s subsidiaries in Switzerland (the “Swiss Subsidiary”) borrowed U.S.\$350 from certain institutional lenders at an interest rate ranging from Libor plus 0.45% to 0.60% per annum. The borrowing was solely for the purpose of the acquisition of eight ANDAs from Teva and an affiliate of Allergan in the United States (refer to Note 33 of these consolidated financial statements for additional details). The entire short-term borrowing of U.S.\$350 was repaid during the three months ended June 30, 2017.

*Long-term borrowings*

Long-term borrowings consist of the following:

|   | As at March 31 |           |
|---|----------------|-----------|
|   | 2018           | 2017      |
| Foreign currency borrowing by the parent company                                  | Rs. 4,880      | Rs. 4,852 |
| Foreign currency borrowing by the Swiss Subsidiary                                | 16,185         | -         |
| Foreign currency borrowing by the Company’s German subsidiary, Reddy Holding GmbH | 3,394          | -         |
| Obligations under finance leases  | 693            | 707       |
|   | Rs. 25,152     | Rs. 5,559 |
| Current portion   |                |           |
| Obligations under finance leases  | Rs. 63         | Rs. 110   |
|   | Rs. 63         | Rs. 110   |
| Non-current portion   |                |           |
| Foreign currency borrowing by the parent company                                  | Rs. 4,880      | Rs. 4,852 |
| Foreign currency borrowing by the Swiss Subsidiary                                | 16,185         | -         |
| Foreign currency borrowing by the Company’s German subsidiary, Reddy Holding GmbH | 3,394          | -         |
| Obligations under finance leases  | 630            | 597       |
|   | Rs. 25,089     | Rs. 5,449 |

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**17. Loans and borrowings (continued)**

*Long-term borrowings (continued)*

*Long-term bank loan of the parent company*

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

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

*Long-term bank loan of subsidiary companies*

During the three months ended June 30, 2017, the Company entered into a refinancing arrangement with certain financial institutions relating to the short-term borrowing of U.S.\$350 in the Swiss Subsidiary. Pursuant to such arrangement, the Company repaid the short-term borrowing of U.S.\$350 and incurred long-term borrowings of U.S.\$250 in the Swiss Subsidiary and EUR 42 in the Company's German subsidiary, Reddy Holding GmbH. The aforesaid loans are repayable over a 36 month period commencing at the end of the 24<sup>th</sup> month and continuing through the 60<sup>th</sup> month following the date of the loan agreement.

All of the foregoing loan agreements impose various financial covenants on the Company. As of March 31, 2018, the Company was in compliance with all such financial covenants.

*Undrawn lines of credit from bankers*

The Company had undrawn lines of credit of Rs.24,046 and Rs.21,156 as of March 31, 2018 and 2017, respectively, from its banks for working capital requirements. The Company has the right to draw upon these lines of credit based on its working capital requirements.

The interest rate profiles of long-term borrowings (other than obligations under finance leases) as at March 31, 2018 and 2017 were as follows:

|                             | As at March 31,<br>2018 |                                | 2017     |                          |
|-----------------------------|-------------------------|--------------------------------|----------|--------------------------|
|                             | Currency                | Interest Rate                  | Currency | Interest Rate            |
| Foreign currency borrowings | USD                     | 1 Month LIBOR + 45 to 82.7 bps | USD      | 1 Month LIBOR + 82.7 bps |
|                             | EUR                     | 0.81                           | %        | -                        |

The aggregate maturities of long-term loans and borrowings, based on contractual maturities, as of March 31, 2018 were as follows:

| <b>Maturing in the year ending</b> | Foreign<br>currency<br>loan | Obligations<br>under finance<br>leases | Total      |
|------------------------------------|-----------------------------|--|------------|
| <b>March 31,<sup>(1)</sup></b>     |                             |  |            |
| 2019                               | Rs. -                       | Rs. 63                                 | Rs. 63     |
| 2020                               | 4,064                       | 59                                     | 4,123      |
| 2021                               | 6,346                       | 61                                     | 6,407      |
| 2022                               | 1,131                       | 66                                     | 1,197      |
| 2023                               | 13,035                      | 71                                     | 13,106     |
| Thereafter                         | -                           | 373                                    | 373        |
|                                    | Rs. 24,576                  | Rs. 693                                | Rs. 25,269 |

<sup>(1)</sup> Long-term debt obligations disclosed in the above table do not reflect any netting of transaction costs amounting to Rs.117.

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in millions, except share and per share data)

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

The aggregate maturities of long term loans and borrowings, based on contractual maturities, as of March 31, 2017 were as follows:

| <b>Maturing in the year ending</b> | Foreign<br>currency<br>loan | Obligations<br>under finance<br>leases | Total     |
|------------------------------------|-----------------------------|--|-----------|
| <b>March 31,</b>                   |                             |  |           |
| 2018                               | Rs. -                       | Rs. 110                                | Rs. 110   |
| 2019                               | -                           | 56                                     | 56        |
| 2020                               | 1,610                       | 51                                     | 1,661     |
| 2021                               | 3,242                       | 53                                     | 3,295     |
| 2022                               | -                           | 57                                     | 57        |
| Thereafter                         | -                           | 380                                    | 380       |
|                                    | Rs. 4,852                   | Rs. 707                                | Rs. 5,559 |

*Obligations under finance leases*

The Company has leased buildings and vehicles under finance leases. Future minimum lease payments under finance leases as at March 31, 2018 were as follows:

| Particulars                | Present value of<br>minimum lease<br>payments | Interest | Future<br>minimum lease<br>payments |
|----------------------------|---|----------|-------------------------------------|
| Not later than one year    | Rs. 63  | Rs. 57   | Rs. 120                             |
| Between one and five years | 257   | 159      | 416                                 |

|                      |         |        |         |
|----------------------|---------|--------|---------|
| More than five years | 373     | 66     | 439     |
|                      | Rs. 693 | Rs.282 | Rs. 975 |

Future minimum lease payments under finance leases as at March 31, 2017 were as follows:

| Particulars                | Present value of<br>minimum lease<br>payments | Interest | Future<br>minimum lease<br>payments |
|----------------------------|---|----------|-------------------------------------|
| Not later than one year    | Rs. 110                                       | Rs.77    | Rs. 187                             |
| Between one and five years | 217   | 149      | 366                                 |
| More than five years       | 380   | 84       | 464                                 |
|                            | Rs. 707                                       | Rs.310   | Rs. 1,017                           |

#### Reconciliation of liabilities arising from financing activities

| Particulars                       | Long-term<br>borrowings <sup>(1)</sup> | Short-term<br>borrowings | Total     |
|-----------------------------------|--|--------------------------|-----------|
| Opening balance                   | Rs. 5,559                              | Rs. 43,539               | Rs.49,098 |
| Borrowings made during the year   | 19,065                                 | 47,564                   | 66,629    |
| Borrowings repaid during the year | (158 )                                 | (65,589 )                | (65,747)  |
| Currency translation adjustments  | 747                                    | (48 )                    | 699       |
| Others                            | (61 )                                  | -                        | (61 )     |
| Closing balance                   | Rs. 25,152                             | Rs. 25,466               | Rs.50,618 |

(1)Including current portion.

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****(in millions, except share and per share data)****18. Employee benefits**

Total employee benefit expenses, including share-based payments, incurred during the years ended March 31, 2018, 2017 and 2016 amounted to Rs.32,149, Rs.31,069 and Rs.31,174, respectively.

***Gratuity benefits provided by the parent company***

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

The components of gratuity cost recognized in the income statement for the years ended March 31, 2018, 2017 and 2016 consist of the following:

|   | For the Year Ended March 31, |         |         |
|---|------------------------------|---------|---------|
|   | 2018                         | 2017    | 2016    |
| Current service cost                              | Rs. 252                      | Rs. 221 | Rs. 177 |
| Interest on net defined benefit liability/(asset) | 6                            | 14      | 2       |
| Gratuity cost recognized in income statement      | Rs. 258                      | Rs. 235 | Rs. 179 |

Details of the employee benefits obligations and plan assets are provided below:

|  | As of March 31, |          |
|--|-----------------|----------|
|  | 2018            | 2017     |
| Present value of funded obligations      | Rs.2,007        | Rs.1,840 |
| Fair value of plan assets                | (1,958)         | (1,687)  |
| Net defined benefit liability recognized | Rs.49           | Rs.153   |

Details of changes in the present value of defined benefit obligations are as follows:

|  | As of March 31, |          |
|--|-----------------|----------|
|  | 2018            | 2017     |
| Defined benefit obligations at the beginning of the year     | Rs.1,840        | Rs.1,540 |
| Current service cost   | 252             | 221      |
| Interest on defined obligations                              | 125             | 114      |
| Re-measurements due to:                                      |                 |          |
| Actuarial loss/(gain) due to change in financial assumptions | (121 )          | 30       |
| Actuarial loss/(gain) due to demographic assumptions         | 11              | (12 )    |
| Actuarial loss/(gain) due to experience changes              | 62              | 62       |
| Benefits paid  | (162 )          | (115 )   |
| Defined benefit obligations at the end of the year           | Rs.2,007        | Rs.1,840 |

Details of changes in the fair value of plan assets are as follows:

|   | As of March 31, |          |
|---|-----------------|----------|
|   | 2018            | 2017     |
| Fair value of plan assets at the beginning of the year  | Rs.1,687        | Rs.1,303 |
| Employer contributions                                  | 313             | 348      |
| Interest on plan assets                                 | 121             | 99       |
| Re-measurements due to:                                 |                 |          |
| Return on plan assets excluding interest on plan assets | (1 )            | 52       |
| Benefits paid   | (162 )          | (115 )   |
| Plan assets at the end of the year                      | Rs.1,958        | Rs.1,687 |

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in millions, except share and per share data)

**18. Employee benefits (continued)***Sensitivity Analysis:*

|  | As of<br>March 31, 2018 |
|--|-------------------------|
| Defined benefit obligation without effect of projected salary growth       | Rs. 1,167               |
| Add: Effect of salary growth   | 840                     |
| Defined benefit obligation with projected salary growth                    | 2,007                   |
| Defined benefit obligation, using discount rate minus 50 basis points      | 2,082                   |
| Defined benefit obligation, using discount rate plus 50 basis points       | 1,936                   |
| Defined benefit obligation, using salary growth rate plus 50 basis points  | 2,081                   |
| Defined benefit obligation, using salary growth rate minus 50 basis points | 1,937                   |

*Summary of the actuarial assumptions:* The actuarial assumptions used in accounting for the Gratuity Plan are as follows:

The assumptions used to determine benefit obligations:

|                               | For the Year Ended March 31,                                |   |   |
|-------------------------------|---|---|---|
|                               | 2018  | 2017  | 2016  |
| Discount rate                 | 7.75  | % 7.20  | % 7.80  |
| Rate of compensation increase | 7% per annum for the first year and 9% per annum thereafter | 7% per annum for the first year and 9% per annum thereafter | 10% per annum for the first 2 years and 9% per annum thereafter |

The assumptions used to determine gratuity cost:



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|                               | For the Year Ended March 31,                                |   |   |
|-------------------------------|---|---|---|
|                               | 2018  | 2017  | 2016  |
| Discount rate                 | 7.20  | % 7.80  | % 8.00  |
| Rate of compensation increase | 7% per annum for the first year and 9% per annum thereafter | 10% per annum for the first 2 years and 9% per annum thereafter | 10% per annum for the first 2 years and 9% per annum thereafter |

*Contributions:* The Company expects to contribute Rs.49 to the Gratuity Plan during the year ending March 31, 2019.

*Disaggregation of plan assets:* The Gratuity Plan's weighted-average asset allocation as of March 31, 2018 and 2017, by asset category, was as follows:

|                           | As of March 31, |   |      |   |
|---------------------------|-----------------|---|------|---|
|                           | 2018            |   | 2017 |   |
| Funds managed by insurers | 99              | % | 99   | % |
| Others                    | 1               | % | 1    | % |

The expected future cash flows in respect of gratuity as at March 31, 2018 were as follows:

|  |        |
|--|--------|
| Expected contribution                            | Amount |
| During the year ended March 31, 2019 (estimated) | Rs.49  |
| Expected future benefit payments                 |        |
| March 31, 2019                                   | 244    |
| March 31, 2020                                   | 219    |
| March 31, 2021                                   | 212    |
| March 31, 2022                                   | 208    |
| March 31, 2023                                   | 208    |
| Thereafter                                       | 2,951  |

***Pension plan of the Company's subsidiary, Industrias Quimicas Falcon de Mexico***

All employees of the Company's Mexican subsidiary, Industrias Quimicas Falcon de Mexico ("Falcon"), are entitled to a pension benefit in the form of a defined benefit pension plan. The Falcon pension plan provides for payment to vested employees at retirement or termination of employment. Liabilities in respect of the pension plan are determined by an actuarial valuation, based on which the Company makes contributions to the pension plan fund. This fund is administered by a third party, who is provided guidance by a technical committee formed by senior employees of Falcon.

F-42

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****(in millions, except share and per share data)****18. Employee benefits (continued)**

The components of net pension cost recognized in the income statement for the years ended March 31, 2018, 2017 and 2016 consist of the following:

|   | For the Year Ended March 31, |        |        |
|---|------------------------------|--------|--------|
|   | 2018                         | 2017   | 2016   |
| Current service cost                              | Rs. 12                       | Rs. 13 | Rs. 14 |
| Interest on net defined benefit liability/(asset) | 13                           | 12     | 11     |
| Total cost recognized in income statement         | Rs. 25                       | Rs. 25 | Rs. 25 |

Details of the employee benefits obligation and plan assets are provided below:

|  | As of March 31, |         |
|--|-----------------|---------|
|  | 2018            | 2017    |
| Present value of funded obligations      | Rs. 243         | Rs. 218 |
| Fair value of plan assets                | (66 )           | (60 )   |
| Net defined benefit liability recognized | Rs. 177         | Rs. 158 |

Details of changes in the present value of defined benefit obligations are as follows:

|  | As of March 31, |         |
|--|-----------------|---------|
|  | 2018            | 2017    |
| Defined benefit obligations at the beginning of the year     | Rs. 218         | Rs. 249 |
| Current service cost   | 12              | 13      |
| Interest on defined obligations                              | 19              | 17      |
| Re-measurements due to:                                      |                 |         |
| Actuarial loss/(gain) due to change in financial assumptions | (6 )            | (24 )   |
| Actuarial loss/(gain) due to experience changes              | 0               | 7       |

|  |        |        |
|--|--------|--------|
| Benefits paid                                      | (8 )   | (19 )  |
| Foreign exchange differences                       | 8      | (25 )  |
| Defined benefit obligations at the end of the year | Rs.243 | Rs.218 |

Details of changes in the fair value of plan assets are as follows:

|   | As of March 31, |        |
|---|-----------------|--------|
|   | 2018            | 2017   |
| Fair value of plan assets at the beginning of the year  | Rs. 60          | Rs. 61 |
| Employer contributions                                  | 8               | 19     |
| Interest on plan assets                                 | 7               | 6      |
| Re-measurements due to:                                 |                 |        |
| Return on plan assets excluding interest on plan assets | (3 )            | (0 )   |
| Benefits paid   | (8 )            | (19 )  |
| Foreign exchange differences                            | 2               | (7 )   |
| Plan assets at the end of the year                      | Rs. 66          | Rs. 60 |

*Sensitivity Analysis:*

|  | As of March<br>31, 2018 |
|--|-------------------------|
| Defined benefit obligation without effect of projected salary growth       | Rs. 160                 |
| Plus effect of salary growth   | 83                      |
| Defined benefit obligation with projected salary growth                    | 243                     |
| Defined benefit obligation, using discount rate minus 50 basis points      | 254                     |
| Defined benefit obligation, using discount rate plus 50 basis points       | 232                     |
| Defined benefit obligation, using salary growth rate plus 50 basis points  | 255                     |
| Defined benefit obligation, using salary growth rate minus 50 basis points | 231                     |

*Contributions:* The Company expects to contribute Rs.36 to the Falcon defined benefit plans during the year ending March 31, 2019.

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in millions, except share and per share data)

**18. Employee benefits (continued)**

*Summary of the actuarial assumptions:* The actuarial assumptions used in accounting for the Falcon defined benefit plans are as follows:

| Assumptions used to determine defined benefit obligations: | For the Year Ended March 31, |        |        |
|--|------------------------------|--------|--------|
|  | 2018                         | 2017   | 2016   |
| Discount rate  | 9.00 %                       | 8.75 % | 7.75 % |
| Rate of compensation increase                              | 4.50 %                       | 4.50 % | 4.50 % |

Assumptions used to determine defined benefit cost:

|                               | For the Year Ended March 31, |        |        |
|-------------------------------|------------------------------|--------|--------|
|                               | 2018                         | 2017   | 2016   |
| Discount rate                 | 8.75 %                       | 7.75 % | 7.50 % |
| Rate of compensation increase | 4.50 %                       | 4.50 % | 4.50 % |

*Plan assets:* The Falcon pension plan's weighted-average asset allocation at March 31, 2018 and 2017, by asset category is as follows:

|                 | As of March 31, |      |
|-----------------|-----------------|------|
|                 | 2018            | 2017 |
| Corporate bonds | 51 %            | 51 % |
| Others          | 49 %            | 49 % |

The expected future cash flows in respect of post-employment benefit plans in Mexico as at March 31, 2018 were as follows:

| Expected contribution                            | Amount |
|--|--------|
| During the year ended March 31, 2019 (estimated) | Rs. 36 |
| Expected future benefit payments                 |        |
| March 31, 2019                                   | 3      |
| March 31, 2020                                   | 6      |
| March 31, 2021                                   | 8      |
| March 31, 2022                                   | 11     |
| March 31, 2023                                   | 13     |
| Thereafter                                       | 607    |

### ***Provident fund benefits***

Certain categories of employees of the Company receive benefits from a provident fund, a defined contribution plan. Both the employee and employer each make monthly contributions to a government administered fund equal to 12% of the covered employee's qualifying salary. The Company has no further obligations under the plan beyond its monthly contributions. The Company contributed Rs.735, Rs.682 and Rs.574 to the provident fund plan during the years ended March 31, 2018, 2017 and 2016, respectively.

### ***Superannuation benefits***

Certain categories of employees of the Company participate in superannuation, a defined contribution plan administered by the Life Insurance Corporation of India. The Company makes monthly contributions based on a specified percentage of each covered employee's salary. The Company has no further obligations under the plan beyond its monthly contributions. The Company contributed Rs.88, Rs.79 and Rs.71 to the superannuation plan during the years ended March 31, 2018, 2017 and 2016, respectively.

### ***Other contribution plans***

In the United States, the Company sponsors a defined contribution 401(k) retirement savings plan for all eligible employees who meet minimum age and service requirements. The Company contributed Rs.212, Rs.231 and Rs.204 to the 401(k) retirement savings plan during the years ended March 31, 2018, 2017 and 2016, respectively. The Company has no further obligations under the plan beyond its monthly matching 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. The contribution amounts are

determined based upon the employee's salary. The Company has no further obligations under the plan beyond its monthly contributions. The Company contributed Rs.135, Rs.134 and Rs.156 to the National Insurance during the years ended March 31, 2018, 2017 and 2016, respectively.

F-44

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**18. Employee benefits (continued)**

*Compensated absences*

The Company provides for accumulation of compensated absences by certain categories of its employees. These employees can carry forward a portion of the unutilized compensated absences and utilize them in future periods or receive cash in lieu thereof as per the Company's policy. The Company records a liability for compensated absences in the period in which the employee renders the services that increases this entitlement. The total liability recorded by the Company towards this obligation was Rs.1,093 and Rs.855 as at March 31, 2018 and 2017, respectively.

*Long term incentive plan*

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

**19. Employee stock incentive plans**

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

The Company instituted the DRL 2002 Plan for all eligible employees pursuant to the special resolution approved by the shareholders in the Annual General Meeting held on September 24, 2001. The DRL 2002 Plan covers all employees and directors (excluding promoter directors) of the parent company and its subsidiaries (collectively,



“eligible employees”). The Nomination, Governance and Compensation Committee of the Board of the parent company (the “Committee”) administers the DRL 2002 Plan and grants stock options to eligible employees. The Committee determines which eligible employees will receive options, the number of options to be granted, the exercise price, the vesting period and the exercise period. The vesting period is determined for all options issued on the date of grant. The options issued under the DRL 2002 Plan vest in periods ranging between one and four years and generally have a maximum contractual term of five years.

The DRL 2002 Plan, as amended at annual general meetings of shareholders held on July 28, 2004 and on July 27, 2005, provides for stock option grants in two categories:

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

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

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

After the stock split effected in the form of a stock dividend issued by the Company in August 2006, the DRL 2002 Plan provides for stock option grants in the above two categories as follows:

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

Stock option activity under the DRL 2002 Plan for the two categories of options during the years ended March 31, 2018 and 2017 is as follows:

**Category A — Fair Market Value Options:** There was no activity under this category during the years ended March 31, 2018 and 2017, and there were no options outstanding under this category as of March 31, 2018 and March 31, 2017.

F-45

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in millions, except share and per share data)

**19. Employee stock incentive plans (continued)***Dr. Reddy's Employees Stock Option Plan -2002 (the "DRL 2002 Plan") (continued)*

| Category B — Par Value Options           | For the Year Ended March 31, 2018 |                          |                                 |   |  |
|--|-----------------------------------|--------------------------|---------------------------------|---|--|
|  | Shares arising out of options     | Range of exercise prices | Weighted average exercise price | Weighted average remaining useful life (months) |  |
| Outstanding at the beginning of the year | 330,142                           | Rs. 5.00                 | Rs. 5.00                        | 69  |  |
| Granted during the year                  | 158,112                           | 5.00                     | 5.00                            | 90  |  |
| Expired/forfeited during the year        | (23,318 )                         | 5.00                     | 5.00                            | -   |  |
| Exercised during the year                | (144,392 )                        | 5.00                     | 5.00                            | -   |  |
| Outstanding at the end of the year       | 320,544                           | Rs. 5.00                 | Rs. 5.00                        | 70  |  |
| Exercisable at the end of the year       | 47,383                            | Rs. 5.00                 | Rs. 5.00                        | 49  |  |

  

| Category B — Par Value Options           | For the Year Ended March 31, 2017 |                          |                                 |   |  |
|--|-----------------------------------|--------------------------|---------------------------------|---|--|
|  | Shares arising out of options     | Range of exercise prices | Weighted average exercise price | Weighted average remaining useful life (months) |  |
| Outstanding at the beginning of the year | 427,348                           | Rs. 5.00                 | Rs. 5.00                        | 72  |  |
| Granted during the year                  | 103,136                           | 5.00                     | 5.00                            | 90  |  |
| Expired/forfeited during the year        | (22,597 )                         | 5.00                     | 5.00                            | -   |  |
| Exercised during the year                | (177,745 )                        | 5.00                     | 5.00                            | -   |  |
| Outstanding at the end of the year       | 330,142                           | Rs. 5.00                 | Rs. 5.00                        | 69  |  |
| Exercisable at the end of the year       | 40,882                            | Rs. 5.00                 | Rs. 5.00                        | 38  |  |

The weighted average grant date fair value of par value options granted under category B above of the DRL 2002 Plan during the years ended March 31, 2018 and 2017 was Rs.2,546 and Rs.3,266 per option, respectively. The weighted average share price on the date of exercise of options during the years ended March 31, 2018 and 2017 was Rs.2,375 and Rs.3,292 per share, respectively.

The aggregate intrinsic value of options exercised under the DRL 2002 Plan during the years ended March 31, 2018 and 2017 was Rs.342 and Rs.584, respectively. As of March 31, 2018, options outstanding under the DRL 2002 Plan had an aggregate intrinsic value of Rs.665 and options exercisable under the DRL 2002 Plan had an aggregate intrinsic value of Rs.98.

The term of the DRL 2002 plan was extended for a period of 10 years effective as of January 29, 2012 by the shareholders at the Company's Annual General Meeting held on July 20, 2012.

***Dr. Reddy's Employees ADR Stock Option Plan, 2007 (the "DRL 2007 Plan")***

The Company instituted the DRL 2007 Plan for all eligible employees in pursuance of the special resolution approved by the shareholders in the Annual General Meeting held on July 27, 2005. The DRL 2007 Plan became effective upon its approval by the Board of Directors on January 22, 2007. The DRL 2007 Plan covers all employees and directors (excluding promoter directors) of DRL and its subsidiaries (collectively, "eligible employees"). The Committee administers the DRL 2007 Plan and grants stock options to eligible employees. The Committee determines which eligible employees will receive the options, the number of options to be granted, the exercise price, the vesting period and the exercise period. The vesting period is determined for all options issued on the date of grant. The options issued under the DRL 2007 Plan vest in periods ranging between one and four years and generally have a maximum contractual term of five years.

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

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

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

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in millions, except share and per share data)

**19. Employee stock incentive plans (continued)***Dr. Reddy's Employees ADR Stock Option Plan, 2007 (the "DRL 2007 Plan") (continued)*

No options were granted under Category A as of March 31, 2018 and 2017.

Stock options activity for category B options under the DRL 2007 Plan during the years ended March 31, 2018 and 2017 is as follows:

| Category B — Par Value Options           | For the Year Ended March 31, 2018 |                          |                                 |   |
|--|-----------------------------------|--------------------------|---------------------------------|---|
|  | Shares arising out of options     | Range of exercise prices | Weighted average exercise price | Weighted average remaining useful life (months) |
| Outstanding at the beginning of the year | 88,141                            | Rs. 5.00                 | Rs. 5.00                        | 74  |
| Granted during the year                  | 63,304                            | 5.00                     | 5.00                            | 90  |
| Expired/forfeited during the year        | (19,335 )                         | 5.00                     | 5.00                            | -   |
| Exercised during the year                | (24,802 )                         | 5.00                     | 5.00                            | -   |
| Outstanding at the end of the year       | 107,308                           | Rs. 5.00                 | Rs. 5.00                        | 73  |
| Exercisable at the end of the year       | 11,034                            | Rs. 5.00                 | Rs. 5.00                        | 47  |

| Category B — Par Value Options           | For the Year Ended March 31, 2017 |                          |                                 |   |
|--|-----------------------------------|--------------------------|---------------------------------|---|
|  | Shares arising out of options     | Range of exercise prices | Weighted average exercise price | Weighted average remaining useful life (months) |
| Outstanding at the beginning of the year | 92,043                            | Rs. 5.00                 | Rs. 5.00                        | 79  |
| Granted during the year                  | 52,956                            | 5.00                     | 5.00                            | 90  |
| Expired/forfeited during the year        | (23,039 )                         | 5.00                     | 5.00                            | -   |

|                                    |           |          |          |    |
|------------------------------------|-----------|----------|----------|----|
| Exercised during the year          | (33,819 ) | 5.00     | 5.00     | -  |
| Outstanding at the end of the year | 88,141    | Rs. 5.00 | Rs. 5.00 | 74 |
| Exercisable at the end of the year | 6,517     | Rs. 5.00 | Rs. 5.00 | 43 |

The weighted average grant date fair value of par value options granted under category B of the DRL 2007 Plan during the years ended March 31, 2018 and 2017 was Rs.2,540 and Rs.3,266, respectively. The weighted average share price on the date of exercise of options during the years ended March 31, 2018 and 2017 was Rs.2,295 and Rs.3,268, respectively.

The aggregate intrinsic value of options exercised under the DRL 2007 Plan during the years ended March 31, 2018 and 2017 was Rs.57 and Rs.110, respectively. As of March 31, 2018, options outstanding under the DRL 2007 Plan had an aggregate intrinsic value of Rs.223 and options exercisable under the DRL 2007 Plan had an aggregate intrinsic value of Rs.23.

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

***Valuation of stock options:***

The fair value of stock options granted under the DRL 2002 Plan and the DRL 2007 Plan has been measured using the Black-Scholes-Merton model at the date of the grant.

The Black-Scholes-Merton model includes assumptions regarding dividend yields, expected volatility, expected terms and risk free interest rates. In respect of par value options granted under category B, the expected term of an option (or “option life”) is estimated based on the vesting term and contractual term, as well as the expected exercise behavior of the employees receiving the option. In respect of fair market value options granted under category A, the option life is estimated based on the simplified method. Expected volatility of the option is based on historical volatility, during a period equivalent to the option life, of the observed market prices of the Company’s publicly traded equity shares. Dividend yield of the options is based on recent dividend activity. Risk-free interest rates are based on the government securities yield in effect at the time of the grant. These assumptions reflect management’s best estimates, but these assumptions involve inherent market uncertainties based on market conditions generally outside of the Company’s control. As a result, if other assumptions had been used in the current period, stock-based compensation expense could have been materially impacted. Further, if management uses different assumptions in future periods, stock based compensation expense could be materially impacted in future years.

F-47

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in millions, except share and per share data)

**19. Employee stock incentive plans (continued)**

The estimated fair value of stock options is recognized in the consolidated income statement on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards.

The weighted average inputs used in computing the fair value of options granted were as follows:

|                         | Grants made on<br>July 10,<br>2017 |   | May 11, 2017 |   | November 15,<br>2016 |   | September 20,<br>2016 |   | July 26, 2016 |   |
|-------------------------|------------------------------------|---|--------------|---|----------------------|---|-----------------------|---|---------------|---|
| Expected volatility     | 30.86                              | % | 30.08        | % | 32.77                | % | 32.92                 | % | 29.88         | % |
| Exercise price          | Rs. 5.00                           |   | Rs. 5.00     |   | Rs. 5.00             |   | Rs. 5.00              |   | Rs. 5.00      |   |
| Option life             | 2.5 Years                          |   | 2.5 Years    |   | 2.5 Years            |   | 2.5 Years             |   | 2.5 Years     |   |
| Risk-free interest rate | 6.48                               | % | 6.69         | % | 6.27                 | % | 6.81                  | % | 6.91          | % |
| Expected dividends      | 0.77                               | % | 0.77         | % | 0.60                 | % | 0.60                  | % | 0.60          | % |
| Grant date share price  | Rs. 2,726.20                       |   | Rs. 2,594.00 |   | Rs. 3,310.70         |   | Rs. 3,157.80          |   | Rs. 3,319.65  |   |

The fair value of services received in return for stock options granted to employees is measured by reference to the fair value of stock options granted.

*Share-based payment expense*

|   | For the Year Ended March 31, |      |      |
|---|------------------------------|------|------|
|   | 2018                         | 2017 | 2016 |
| Cash settled share-based payment expense <sup>(1)</sup> | 28                           | 48   | 29   |



|   |     |     |     |
|---|-----|-----|-----|
| Equity settled share-based payment expense <sup>(2)</sup> | 454 | 350 | 442 |
|   | 482 | 398 | 471 |

Certain of the Company's employees are eligible for share-based payment awards that are settled in cash. These awards entitle the employees to a cash payment, on the exercise date, subject to vesting upon satisfaction of certain service conditions which range from 1 to 4 years. The amount of cash payment is determined based on the price of (1) the Company's ADSs at the time of exercise. As of March 31, 2018, there was Rs.67 of total unrecognized compensation cost related to unvested awards. This cost is expected to be recognized over a weighted-average period of 1.96 years. This scheme does not involve dealing in or subscribing to or purchasing securities of the Company, directly or indirectly.

(2) As of March 31, 2018, there was Rs.313 of total unrecognized compensation cost related to unvested stock options. This cost is expected to be recognized over a weighted-average period of 1.98 years.

## 20. Provisions

The details of changes in provisions during the year ended March 31, 2018 are as follows:

| Particulars                                 | Allowance for sales return <sup>(1)</sup> | Environmental liability <sup>(2)</sup> | Legal and others <sup>(3)</sup> | Total    |
|---|---|--|---------------------------------|----------|
| <b>Balance as at April 1, 2017</b>          | Rs. 3,784                                 | Rs. 47                                 | Rs. 725                         | Rs.4,556 |
| Provision made during the year              | 2,960                                     | -                                      | 142                             | 3,102    |
| Provision used or reversed during the year  | (3,561 )                                  | -                                      | (345 )                          | (3,906)  |
| Effect of changes in foreign exchange rates | 27  | 6                                      | -                               | 33       |
| Balance as at March 31, 2018                | Rs. 3,210                                 | Rs. 53                                 | Rs. 522                         | Rs.3,785 |
| Current                                     | Rs. 3,210                                 | Rs. -                                  | Rs. 522                         | Rs.3,732 |
| Non-current                                 | -   | 53                                     | -                               | 53       |
|   | Rs. 3,210                                 | Rs. 53                                 | Rs. 522                         | Rs.3,785 |

(1) Provision for sales returns is accounted for by recording a provision based on the Company's estimate of expected sales returns. See Note 3(1) for the Company's accounting policy on sales returns.

As a result of the acquisition of a unit of The Dow Chemical Company in April 2008, the Company assumed a liability for contamination of the Mirfield site acquired of Rs.39 (carrying value Rs.53). The seller is required to (2) indemnify the Company for this liability. Accordingly, a corresponding asset has also been recorded in the statements of financial position.

Primarily consists of provision recorded towards the potential liability arising out of a litigation relating to (3) cardiovascular and anti-diabetic formulations. Refer to Note 39 (Contingencies) of these consolidated financial statements under "Product and patent related matters - Matters relating to National Pharmaceutical Pricing Authority - Litigation relating to Cardiovascular and Anti-diabetic formulations" for further details.

F-48

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****(in millions, except share and per share data)****21. Trade and other payables**

Trade and other payables consist of the following:

|                        | As at March 31, |            |
|------------------------|-----------------|------------|
|                        | 2018            | 2017       |
| Due to related parties | Rs. 14          | Rs. 9      |
| Others                 | 16,038          | 13,408     |
|                        | Rs. 16,052      | Rs. 13,417 |

**22. Other liabilities**

Other liabilities consist of the following:

|                           | As at March 31, |            |
|---------------------------|-----------------|------------|
|                           | 2018            | 2017       |
| Current                   |                 |            |
| Accrued expenses          | Rs. 14,861      | Rs. 13,963 |
| Employee benefits payable | 3,927           | 4,416      |
| Statutory dues payable    | 915             | 558        |
| Deferred revenue          | 622             | 509        |
| Advance from customers    | 360             | 310        |
| Others                    | 1,983           | 2,089      |
|                           | Rs. 22,668      | Rs. 21,845 |
| Non-current               |                 |            |
| Deferred revenue          | 2,697           | 3,166      |
| Others                    | 883             | 911        |
|                           | Rs. 3,580       | Rs. 4,077  |

**23. Revenue**

Revenue consists of the following:

|                                  | For the Year Ended March 31, |             |             |
|----------------------------------|------------------------------|-------------|-------------|
|                                  | 2018                         | 2017        | 2016        |
| Sales                            | Rs. 138,022                  | Rs. 138,663 | Rs. 152,476 |
| Service income                   | 1,534                        | 1,536       | 1,466       |
| License fees <sup>(1)</sup>      | 2,472                        | 610         | 766         |
|                                  | Rs. 142,028                  | Rs. 140,809 | Rs. 154,708 |
| Excise duty included in revenues | Rs. 173                      | Rs. 939     | Rs. 842     |

<sup>(1)</sup> License fees for the year ended March 31, 2018 primarily includes out-licensing revenue from Encore Dermatology Inc. Refer to Note 35 of these consolidated financial statements for further details.

Effective July 1, 2017, a Goods and Services Tax (“GST”) was introduced in India, replacing the excise duty and various other taxes. Following the principles of IAS 18, revenues from operations are disclosed net of GST. For periods prior to July 1, 2017, the excise duty amount was recorded as part of revenues with a corresponding amount recorded in the cost of revenues. Accordingly, revenues and cost of revenues for the year ended March 31, 2018 are not comparable with those of the previous years presented.

**24. Other (income)/expense, net**

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

|   | For the Year Ended March 31, |              |           |
|---|------------------------------|--------------|-----------|
|   | 2018                         | 2017         | 2016      |
| Loss on sale/disposal of property, plant and equipment and other intangibles, net | Rs. 55                       | Rs. 80       | Rs. 112   |
| Sale of spent chemicals   | (297)                        | (206 )       | (271 )    |
| Scrap sales   | (169)                        | (216 )       | (220)     |
| Miscellaneous income, net <sup>(1)</sup>  | (377)                        | (723 )       | (495)     |
|   | Rs. (788)                    | Rs. (1,065 ) | Rs. (874) |

During the three months ended March 31, 2017, the Company entered into an agreement with Galderma Laboratories, LP to settle the ongoing litigation relating to the Company’s launch of a generic product in the United States. Pursuant to the settlement, the Company recorded an amount of Rs.417, representing the relevant consideration attributable to settlement of such litigation.

F-49

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in millions, except share and per share data)

**25. Finance (expense)/income, net**

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

|   | For the Year Ended March 31, |           |            |
|---|------------------------------|-----------|------------|
|   | 2018                         | 2017      | 2016       |
| Interest income   | Rs.540                       | Rs.558    | Rs.1,399   |
| Dividend and profit on sale of other investments <sup>(1)</sup> | 2,270                        | 956       | 852        |
| Foreign exchange gain   | 87                           | 73        | -          |
| Finance income (A)  | Rs.2,897                     | Rs.1,587  | Rs.2,251   |
| Interest expense  | Rs.(788 )                    | Rs.(634 ) | Rs.(826 )  |
| Foreign exchange loss <sup>(2)</sup>                            | (29 )                        | (147 )    | (4,133)    |
| Finance expense (B)   | Rs.(817 )                    | Rs.(781 ) | Rs.(4,959) |
| Finance (expense)/income, net [(A)+(B)]                         | Rs.2,080                     | Rs.806    | Rs.(2,708) |

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

<sup>(2)</sup> Includes the foreign exchange losses related to the Company's Venezuela operations of Rs.37, Rs.41 and Rs.4,621 for the year ended March 31, 2018, 2017 and 2016 respectively. Refer to Note 38 of these consolidated financial statements for further details.

**26. Income taxes*****a. Income tax (expense)/benefit recognized in the consolidated income statement***

Income tax (expense)/benefit recognized in the consolidated income statement consists of the following:

|  | For the Year Ended March 31, |            |            |
|--|------------------------------|------------|------------|
|  | 2018                         | 2017       | 2016       |
| Current taxes  |                              |            |            |
| Domestic   | Rs.(1,412)                   | Rs.(1,936) | Rs.(4,331) |
| Foreign  | (363 )                       | (1,158)    | (3,046)    |
|  | Rs.(1,775)                   | Rs.(3,094) | Rs.(7,377) |
| Deferred taxes   |                              |            |            |
| Domestic   | Rs.(379 )                    | Rs.223     | Rs.132     |
| Foreign  | (2,381)                      | 257        | 118        |
|  | Rs.(2,760)                   | Rs.480     | Rs.250     |
| Total income tax expense recognized in the consolidated income statement | Rs.(4,535)                   | Rs.(2,614) | Rs.(7,127) |

***b. Income tax (expense)/benefit recognized directly in equity***

Income tax (expense)/benefit recognized directly in equity consists of the following:

|   | For the Year Ended March 31, |            |            |
|---|------------------------------|------------|------------|
|   | 2018                         | 2017       | 2016       |
| Tax effect on changes in fair value of other investments                    | Rs. 1,370                    | Rs. (499 ) | Rs. (88 )  |
| Tax effect on foreign currency translation differences                      | (17 )                        | 148        | (62 )      |
| Tax effect on effective portion of change in fair value of cash flow hedges | 41                           | (60 )      | (23 )      |
| Tax effect on actuarial gains/losses on defined benefit obligations         | (12 )                        | 14         | 64         |
|   | Rs. 1,382                    | Rs. (397 ) | Rs. (109 ) |

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in millions, except share and per share data)

**26. Income taxes (continued)*****c. Reconciliation of effective tax rate***

The following is a reconciliation of the Company's effective tax rates for the years ended March 31, 2018, 2017 and 2016:

|  | For the Year Ended March 31, |                     |                     |
|--|------------------------------|---------------------|---------------------|
|  | 2018                         | 2017                | 2016                |
| Profit before income taxes   | Rs. 14,341                   | Rs. 14,653          | Rs. 27,140          |
| Enacted tax rate in India  | 34.61 %                      | 34.61 %             | 34.61 %             |
| Computed expected tax benefit/(expense)  | Rs. (4,963 )                 | Rs. (5,071 )        | Rs. (9,393 )        |
| Effect of:   |                              |                     |                     |
| Differences between Indian and foreign tax rates   | Rs. 712                      | Rs. 98              | Rs. 1,122           |
| (Unrecognized deferred tax assets)/recognition of previously unrecognized deferred tax assets, net | (1,673 )                     | (2,849 )            | (1,600 )            |
| Expenses not deductible for tax purposes   | (261 )                       | (378 )              | (138 )              |
| Reversal of earlier years' tax provisions  | 135                          | 1,370               | -                   |
| Income exempt from income taxes  | 746                          | 280                 | 731                 |
| Foreign exchange differences   | 41                           | 439                 | (836 )              |
| Incremental deduction allowed for research and development costs <sup>(1)</sup>                    | 1,324                        | 3,111               | 2,782               |
| Tax expense on distributed/undistributed earnings of subsidiary outside India                      | -                            | (3 )                | (519 )              |
| Deduction for qualified domestic production activities in the United States                        | -                            | -                   | 38                  |
| Effect of change in tax rate   | (1,329 )                     | 104                 | (30 )               |
| Investment allowance deduction   | -                            | 363                 | 177                 |
| Others   | 733                          | (79 )               | 539                 |
| Income tax benefit/(expense)   | <b>Rs. (4,535 )</b>          | <b>Rs. (2,614 )</b> | <b>Rs. (7,127 )</b> |
| Effective tax rate   | 32 %                         | 18 %                | 26 %                |

<sup>(1)</sup> India's Finance Act, 2016 incorporated an amendment that reduces the weighted deduction on eligible research and development expenditure in a phased manner from 200% to 150% commencing from April 1, 2017.



The increase in the Company's effective tax rate for the year ended March 31, 2018 as compared to the year ended March 31, 2017 was primarily on account of the following:

re-measurement of deferred tax assets and liabilities of the Company's subsidiaries in the United States due to the enactment of The Tax Cuts and Jobs Act of 2017 in the United States on December 22, 2017. Due to this enactment, the Company re-measured its U.S. deferred tax assets and liabilities based on the new tax law. This resulted in a charge of Rs.1,304 for the year ended March 31, 2018, primarily to reflect the impact on our U.S. deferred tax assets of the reduction in the corporate federal income tax rate from 35% to 21% under the new tax law;

resolution of a certain tax matter in the Company's favor during the year ended March 31, 2017, resulting in a reversal of Rs.1,370 in income tax expense pertaining to earlier years. This reduced the effective tax rate for the year ended March 31, 2017, and there was no similar tax benefit for the year ended March 31, 2018; and

the foregoing was partially offset by changes in the Company's jurisdictional mix of earnings (i.e., an increase in the proportion of the Company's profits from lower tax jurisdictions and a decrease in the proportion of the Company's profits from higher tax jurisdictions) for the year ended March 31, 2018, as compared to the year ended March 31, 2017.

***d. Unrecognized deferred tax assets and liabilities***

The details of unrecognized deferred tax assets and liabilities are summarized below:

|                                       | As at March 31, |          |
|---------------------------------------|-----------------|----------|
|                                       | 2018            | 2017     |
| Deductible temporary differences, net | Rs.4,961        | Rs.3,488 |
| Operating tax loss carry-forward      | 4,020           | 3,027    |
|                                       | Rs.8,981        | Rs.6,515 |

For the year ended March 31, 2018, the Company did not recognize deferred tax assets of Rs.993 on operating tax losses pertaining primarily to foreign exchange loss of its subsidiary in Venezuela, Dr. Reddy's Venezuela, C.A. Further, the Company did not recognize deferred tax assets of Rs.1,473 on certain deductible temporary differences, as the Company believes that it is not probable that there will be available taxable profits against which such temporary differences can be utilized.

Deferred income taxes are not provided on undistributed earnings of Rs.31,587 as at March 31, 2018, of subsidiaries outside India, where it is expected that earnings of the subsidiaries will not be distributed in the foreseeable future. Generally, the Company indefinitely reinvests all of the accumulated undistributed earnings of foreign subsidiaries,

and accordingly, has not recorded any deferred taxes in relation to such undistributed earnings of its foreign subsidiaries. It is impracticable to determine the taxes payable when these earnings are remitted.

F-51

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in millions, except share and per share data)

**26. Income taxes (continued)***e. Deferred tax assets and liabilities*

The tax effects of significant temporary differences that resulted in deferred tax assets and liabilities and a description of the items that created these differences is given below:

|   | As at March 31, |           |
|---|-----------------|-----------|
|   | 2018            | 2017      |
| Deferred tax assets/(liabilities):                      |                 |           |
| Inventory   | Rs. 1,790       | Rs. 2,385 |
| Minimum Alternate Tax*                                  | 1,630           | 1,614     |
| Trade and other receivables                             | 278             | 424       |
| Operating tax loss and interest loss carry-forward      | 112             | 1,329     |
| Other current assets and other current liabilities, net | 1,291           | 1,715     |
| Property, plant and equipment                           | (2,263)         | (2,142)   |
| Other intangible assets                                 | (569 )          | (370 )    |
| Others  | 629             | (579 )    |
| Net deferred tax assets                                 | Rs. 2,898       | Rs. 4,376 |

As per Indian tax laws, companies are liable for a Minimum Alternate Tax ("MAT" tax) when current tax, as computed under the provisions of the Income Tax Act, 1961 ("Tax Act"), is determined to be below the MAT tax computed under section 115JB of the Tax Act. The excess of MAT tax over current tax is eligible to be carried forward and set-off in the future against the current tax liabilities over a period of 15 years.

In assessing whether the deferred income tax assets will be realized, management considers whether some portion or all of the deferred income tax assets will not be realized. The ultimate realization of the deferred income tax assets and tax loss carry-forwards is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. Management considers the scheduled reversals of deferred tax liabilities, projected future taxable income and tax planning strategy in making this assessment. Based on the level of historical

taxable income and projections of future taxable income over the periods in which the deferred tax assets are deductible, management believes that the Company will realize the benefits of those recognized deductible differences and tax loss carry-forwards. Recoverability of deferred tax assets is based on estimates of future taxable income. Any changes in such future taxable income would impact the recoverability of deferred tax assets.

Operating loss carry-forward consists of business losses, unabsorbed depreciation and unabsorbed interest carry-forwards. A portion of this total loss can be carried indefinitely and the remaining amounts expire at various dates ranging from 2019 through 2028.

*f. Movement in deferred tax assets and liabilities during the years ended March 31, 2018 and 2017.*

The details of movement in deferred tax assets and liabilities are summarized below:

|   | As at March<br>31, 2017 | Recognized in<br>income<br>statement | Recognized<br>in equity | As at March<br>31, 2018 |
|---|-------------------------|--------------------------------------|-------------------------|-------------------------|
| Deferred tax assets/(liabilities)                       |                         |                                      |                         |                         |
| Inventory   | Rs. 2,385               | Rs. (595 )                           | Rs. -                   | Rs. 1,790               |
| Minimum Alternate Tax                                   | 1,614                   | 16                                   | -                       | 1,630                   |
| Trade and other receivables                             | 424                     | (146 )                               | -                       | 278                     |
| Operating tax loss and interest loss carry-forward      | 1,329                   | (1,217 )                             | -                       | 112                     |
| Other current assets and other current liabilities, net | 1,715                   | (901 )                               | 477                     | 1,291                   |
| Property, plant and equipment                           | (2,142 )                | (121 )                               | -                       | (2,263 )                |
| Other intangible assets                                 | (370 )                  | (199 )                               | -                       | (569 )                  |
| Others  | (579 )                  | 298                                  | 910                     | 629                     |
| Net deferred tax assets/(liabilities)                   | Rs. 4,376               | Rs. (2,865 )                         | Rs. 1,387               | Rs. 2,898               |

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in millions, except share and per share data)

**26. Income taxes (continued)***f. Movement in deferred tax assets and liabilities during the years ended March 31, 2018 and 2017 (continued)*

|   | As at March<br>31, 2016 | Recognized in<br>income<br>statement | Recognized<br>in equity | As at March<br>31, 2017 |
|---|-------------------------|--------------------------------------|-------------------------|-------------------------|
| Deferred tax assets/(liabilities)                       |                         |                                      |                         |                         |
| Inventory   | Rs. 2,579               | Rs. (194 )                           | Rs. -                   | Rs. 2,385               |
| Minimum Alternate Tax                                   | 1,614                   | -                                    | -                       | 1,614                   |
| Trade and other receivables                             | 412                     | 12                                   | -                       | 424                     |
| Operating tax loss and interest loss carry-forward      | 548                     | 781                                  | -                       | 1,329                   |
| Other current assets and other current liabilities, net | 2,026                   | (231 )                               | (80 )                   | 1,715                   |
| Property, plant and equipment                           | (1,745 )                | (397 )                               | -                       | (2,142 )                |
| Intangible assets                                       | (482 )                  | 112                                  | -                       | (370 )                  |
| Others  | (722 )                  | 424                                  | (281 )                  | (579 )                  |
| Net deferred tax assets/(liabilities)                   | Rs. 4,230               | Rs. 507                              | Rs. (361 )              | Rs. 4,376               |

The amounts recognized in the income statement for the years ended March 31, 2018 and 2017 include Rs.105 and Rs.27, respectively, which represent exchange differences arising due to foreign currency translations.

**27. Operating leases**

The Company has leased offices and vehicles under various operating lease agreements that are renewable on a periodic basis at the option of both the lessor and the lessee. Rental expense under these leases was Rs.787, Rs.751 and Rs.819 for the years ended March 31, 2018, 2017 and 2016, respectively.

The schedule of future minimum rental payments in respect of non-cancellable operating leases is set out below:

|                            | As of March 31, |           |           |
|----------------------------|-----------------|-----------|-----------|
|                            | 2018            | 2017      | 2016      |
| Less than one year         | Rs.496          | Rs.383    | Rs.396    |
| Between one and five years | 1,144           | 961       | 1,185     |
| More than five years       | 289             | 366       | 663       |
|                            | Rs. 1,929       | Rs. 1,710 | Rs. 2,244 |

During the year ended March 31, 2014, the Company entered into a non-cancellable operating lease for an office and laboratory facility in the United States. The future minimum rental payments in respect of this lease are Rs.945 (U.S.\$14) and Rs.904 (U.S.\$14) as of March 31, 2018 and 2017, respectively.

## 28. Related parties

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

- Green Park Hotel and Resorts Limited for hotel services;
- Green Park Hospitality Services Private Limited for catering services;
- Dr. Reddy's Foundation towards contributions for social development;
- Pudami Educational Society towards contributions for social development;
- Reddy Kunshan for providing research and development services;
- Dr. Reddy's Institute of Life Sciences for research and development services; and
- Stamlo Hotels Limited for hotel services.

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

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

Further, the Company contributes to the Dr. Reddy's Laboratories Gratuity Fund, which maintains the plan assets of the Company's Gratuity Plan for the benefit of its employees. See Note 18 of these consolidated financial statements for information on transactions between the Company and the Gratuity Fund. The following is a summary of significant related party transactions:

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****(in millions, except share and per share data)****28. Related parties (continued)**

|   | For the Year Ended March 31, |         |         |
|---|------------------------------|---------|---------|
|   | <b>2018</b>                  | 2017    | 2016    |
|   | Rs. 98                       | Rs. 114 | Rs. 102 |
| Research and development services received  | 100                          | -       | -       |
| Research and development services provided  | 238                          | 318     | 249     |
| Contributions towards social development  | 178                          | -       | -       |
| Catering services received  | 49                           | 44      | 51      |
| Hotel expenses paid   | 35                           | 39      | 37      |
| Lease rentals paid under cancellable operating leases to key management personnel and their relatives | 1                            | -       | -       |
| Others  |                              |         |         |

The Company has the following amounts due from related parties:

|   | As at March 31, |       |
|---|-----------------|-------|
|   | 2018            | 2017  |
|   | Rs. 8           | Rs. 8 |
| Key management personnel (towards rent deposits)  | 148             | -     |
| Other related parties (Reddy Kunshan and Green Park Hospitality Services Private Limited) |                 |       |

The Company has the following amounts due to related parties:

|                        | As at March 31, |       |
|------------------------|-----------------|-------|
|                        | 2018            | 2017  |
|                        | Rs. 14          | Rs. 9 |
| Due to related parties |                 |       |

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

|   | For the Year Ended March 31, |         |         |
|---|------------------------------|---------|---------|
|   | 2018                         | 2017    | 2016    |
| Salaries and other benefits <sup>(1)</sup>  | Rs. 458                      | Rs. 380 | Rs. 336 |
| Contributions to defined contribution plans | 38                           | 28      | 19      |
| Commission to directors                     | 153                          | 180     | 263     |
| Share-based payments expense                | 114                          | 75      | 76      |
| Total                                       | Rs. 763                      | Rs. 663 | Rs. 694 |

In addition to the above, the Company has accrued Rs.0 and Rs.79 towards a long term incentive plan for the (1)services rendered by key management personnel during the years ended March 31, 2018 and 2017, respectively. Refer to Note 18 of these consolidated financial statements for further details.

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

## 29. Financial instruments

### *Financial instruments by category*

The carrying value and fair value of financial instruments by each category as at March 31, 2018 were as follows:

|                                  | Note | Loans and receivables | Available-for-sale | Held-to-maturity <sup>(3)</sup> | Other financial liabilities | Derivatives | Total carrying value | Total fair value |
|----------------------------------|------|-----------------------|--------------------|---------------------------------|-----------------------------|-------------|----------------------|------------------|
| <b>Assets:</b>                   |      |                       |                    |                                 |                             |             |                      |                  |
| Cash and cash equivalents        | 14   | Rs. 2,638             | Rs.-               | Rs. -                           | Rs.-                        | Rs. -       | Rs.2,638             | Rs.2,638         |
| Other investments                | 10   | 41                    | 15,973             | 4,865                           | -                           | -           | 20,879               | 20,879           |
| Trade and other receivables      | 12   | 40,786                | -                  | -                               | -                           | -           | 40,786               | 40,786           |
| Derivative financial instruments |      | -                     | -                  | -                               | -                           | 103         | 103                  | 103              |
| Other assets <sup>(1)</sup>      | 13   | 2,273                 | -                  | -                               | -                           | -           | 2,273                | 2,273            |
| Total                            |      | Rs. 45,738            | Rs. 15,973         | Rs. 4,865                       | Rs.-                        | Rs. 103     | Rs.66,679            | Rs.66,679        |
| <b>Liabilities:</b>              |      |                       |                    |                                 |                             |             |                      |                  |
| Trade and other payables         | 21   | Rs. -                 | Rs.-               | Rs. -                           | Rs.16,052                   | Rs. -       | Rs.16,052            | Rs.16,052        |
| Derivative financial instruments |      | -                     | -                  | -                               | -                           | 85          | 85                   | 85               |
| Long-term borrowings             | 17   | -                     | -                  | -                               | 25,152                      | -           | 25,152               | 25,152           |



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|   |       |       |       |       |            |        |            |            |
|---|-------|-------|-------|-------|------------|--------|------------|------------|
| Short-term borrowings                           | 17    | -     | -     | -     | 25,466     | -      | 25,466     | 25,466     |
| Bank overdraft                                  | 14    | -     | -     | -     | 96         | -      | 96         | 96         |
| Other liabilities and provisions <sup>(2)</sup> | 20,22 | -     | -     | -     | 20,712     | -      | 20,712     | 20,712     |
| Total   |       | Rs. - | Rs. - | Rs. - | Rs. 87,478 | Rs. 85 | Rs. 87,563 | Rs. 87,563 |

F-54

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****(in millions, except share and per share data)****29. Financial instruments (continued)**

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

|   | Note   | Loans and<br>receivables | Available<br>for sale | Other<br>financial<br>liabilities | Derivatives    | Total<br>carrying<br>value | Total fair<br>value |
|---|--------|--------------------------|-----------------------|-----------------------------------|----------------|----------------------------|---------------------|
| <b>Assets:</b>                                  |        |                          |                       |                                   |                |                            |                     |
| Cash and cash equivalents                       | 14     | Rs. 3,866                | Rs.-                  | Rs. -                             | Rs. -          | Rs. 3,866                  | Rs. 3,866           |
| Other investments                               | 10     | 3,403                    | 16,104                | -                                 | -              | 19,507                     | 19,507              |
| Trade and other receivables                     | 12     | 38,271                   | -                     | -                                 | -              | 38,271                     | 38,271              |
| Derivative financial instruments                |        | -                        | -                     | -                                 | 262            | 262                        | 262                 |
| Other assets <sup>(1)</sup>                     | 13     | 1,916                    | -                     | -                                 | -              | 1,916                      | 1,916               |
| <b>Total</b>                                    |        | <b>Rs. 47,456</b>        | <b>Rs. 16,104</b>     | <b>Rs. -</b>                      | <b>Rs. 262</b> | <b>Rs. 63,822</b>          | <b>Rs. 63,822</b>   |
| <b>Liabilities:</b>                             |        |                          |                       |                                   |                |                            |                     |
| Trade and other payables                        | 21     | Rs. -                    | Rs.-                  | Rs. 13,417                        | Rs. -          | Rs. 13,417                 | Rs. 13,417          |
| Derivative financial instruments                |        | -                        | -                     | -                                 | 10             | 10                         | 10                  |
| Long-term borrowings                            | 17     | -                        | -                     | 5,571                             | -              | 5,571                      | 5,571               |
| Short-term borrowings                           | 17     | -                        | -                     | 43,539                            | -              | 43,539                     | 43,539              |
| Bank overdraft                                  | 14     | -                        | -                     | 87                                | -              | 87                         | 87                  |
| Other liabilities and provisions <sup>(2)</sup> | 20, 22 | -                        | -                     | 20,391                            | -              | 20,391                     | 20,391              |
| <b>Total</b>                                    |        | <b>Rs. -</b>             | <b>Rs.-</b>           | <b>Rs. 83,005</b>                 | <b>Rs. 10</b>  | <b>Rs. 83,015</b>          | <b>Rs. 83,015</b>   |

<sup>(1)</sup> Other assets that are not financial assets (such as receivables from statutory authorities, export benefit receivables, prepaid expenses, advances paid and certain other receivables) of Rs.13,058 and Rs.11,037 as of March 31, 2018 and 2017, respectively, are not included.

<sup>(2)</sup> Other liabilities that are not financial liabilities (such as statutory dues payable, deferred revenue, advances from customers and certain other accruals) of Rs.9,321 and Rs.10,087 as of March 31, 2018 and 2017, respectively, are not included.

(2) Interest accrued but not due on held-to-maturity investments is included in other current assets.

### Fair value hierarchy

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

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

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

The following table presents the fair value hierarchy of assets and liabilities measured at fair value on a recurring basis as of March 31, 2018:

| Particulars   | Level 1    | Level 2 | Level 3 | Total      |
|---|------------|---------|---------|------------|
| Available for sale - Financial asset - Investments in units of mutual funds   | Rs. 14,778 | Rs. -   | Rs. -   | Rs. 14,778 |
| Available for sale - Financial asset - Investment in equity securities  | 1,195      | -       | -       | 1,195      |
| Derivative financial instruments – net gain/(loss) on outstanding foreign exchange forward, option and swap contracts and interest rate swap contracts <sup>(1)</sup> | -          | 18      | -       | 18         |

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

| Particulars   | Level 1    | Level 2 | Level 3 | Total      |
|---|------------|---------|---------|------------|
| Available for sale - Financial asset - Investments in units of mutual funds   | Rs. 11,141 | Rs. -   | Rs. -   | Rs. 11,141 |
| Available for sale - Financial asset - Investment in equity securities  | 4,963      | -       | -       | 4,963      |
| Derivative financial instruments – net gain/(loss) on outstanding foreign exchange forward, option and swap contracts and interest rate swap contracts <sup>(1)</sup> | -          | 252     | -       | 252        |

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

present value calculations. The models incorporate various inputs, including foreign exchange forward rates, interest rate curves and forward rate curves.

As at March 31, 2018, the changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognized at fair value.

F-55

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****(in millions, except share and per share data)****29. Financial instruments (continued)***Derivative financial instruments*

The Company had a derivative financial asset and derivative financial liability of Rs.103 and Rs.85, respectively, as of March 31, 2018, as compared to derivative financial asset and derivative financial liability of Rs.262 and Rs.10, respectively, as of March 31, 2017, towards these derivative financial instruments.

*Details of gain/(loss) recognized in respect of derivative contracts*

The following table presents details in respect of the gain/(loss) recognized in respect of derivative contracts during the applicable year ended:

|  | For the Year Ended March 31, |         |          |
|--|------------------------------|---------|----------|
|  | 2018                         | 2017    | 2016     |
| Net gain recognized in finance costs in respect of foreign exchange derivative contracts           | Rs. 168                      | Rs. 699 | Rs. 231  |
| Net gain/(loss) recognized in equity in respect of hedges of highly probable forecast transactions | (82 )                        | 968     | 966      |
| Net gain/(loss) recognized as component of revenue   | 651                          | (683 )  | (1,172 ) |

The net carrying amount of the Company's "hedging reserve" as a component of equity before adjusting for tax impact was a gain of Rs.49 as at March 31, 2018, as compared to a gain of Rs.129 as at March 31, 2017.

*Outstanding foreign exchange derivative contracts*

The following table gives details in respect of the notional amount of outstanding foreign exchange derivative contracts as of March 31, 2018.

| Category  | Instrument       | Currency | Cross<br>Currency <sup>(1)</sup> | Amounts   | Buy/Sell |
|---|------------------|----------|----------------------------------|-----------|----------|
| Hedges of recognized assets and liabilities     | Forward contract | U.S.\$   | INR                              | U.S.\$ 72 | Sell     |
|   | Forward contract | GBP      | USD                              | GBP 31    | Buy      |
|   | Forward contract | U.S.\$   | RUB                              | U.S.\$ 38 | Buy      |
|   | Option contract  | U.S.\$   | INR                              | U.S.\$ 65 | Sell     |
| Hedges of highly probable forecast transactions | Forward contract | RUB      | INR                              | RUB 1,080 | Sell     |
|   | Option contract  | U.S.\$   | INR                              | U.S.\$240 | Sell     |

The following table gives details in respect of the notional amount of outstanding foreign exchange derivative contracts as of March 31, 2017.

| Category  | Instrument       | Currency | Cross<br>Currency <sup>(1)</sup> | Amounts     | Buy/Sell |
|---|------------------|----------|----------------------------------|-------------|----------|
| Hedges of recognized assets and liabilities     | Forward contract | U.S.\$   | INR                              | U.S.\$193.5 | Sell     |
|   | Forward contract | U.S.\$   | RON                              | U.S.\$3.0   | Buy      |
|   | Forward contract | U.S.\$   | RUB                              | U.S.\$20.0  | Buy      |
|   | Forward contract | EUR      | U.S.\$                           | EUR 95.0    | Sell     |
|   | Forward contract | GBP      | U.S.\$                           | GBP 14.1    | Buy      |
|   | Option contract  | U.S.\$   | INR                              | U.S.\$80.0  | Sell     |
| Hedges of highly probable forecast transactions | Forward contract | RUB      | INR                              | RUB 150.0   | Sell     |
|   | Option contract  | U.S.\$   | INR                              | U.S.\$180.0 | Sell     |

<sup>(1)</sup> “INR” means Indian rupees, “RON” means Romanian new leus, and “RUB” means Russian roubles.

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****(in millions, except share and per share data)****29. Financial instruments (continued)**

The table below summarizes the periods when the cash flows associated with highly probable forecast transactions that are classified as cash flow hedges are expected to occur:

|   | As of March 31, |            |
|---|-----------------|------------|
|   | 2018            | 2017       |
| Cash flows in U.S. Dollars                            |                 |            |
| Not later than one month                              | Rs. 1,955       | Rs. 973    |
| Later than one month and not later than three months  | 3,911           | 1,946      |
| Later than three months and not later than six months | 5,866           | 2,918      |
| Later than six months and not later than one year     | 3,910           | 5,837      |
|   | Rs. 15,642      | Rs. 11,674 |
| Cash flows in Roubles                                 |                 |            |
| Not later than one month                              | Rs. 102         | Rs. 57     |
| Later than one month and not later than three months  | 204             | 115        |
| Later than three months and not later than six months | 306             | -          |
| Later than six months and not later than one year     | 611             | -          |
|   | Rs. 1,223       | Rs. 172    |

*Hedges of changes in the interest rates:*

Consistent with its risk management policy, the Company uses interest rate swaps (including cross currency interest rate swaps) to mitigate the risk of changes in interest rates. The Company does not use them for trading or speculative purposes.

The changes in fair value of such interest rate swaps (including cross currency interest rate swaps) are recognized as part of finance cost. Accordingly the Company has recorded, as part of finance cost, a net gain of Rs.9 for the year ended March 31, 2018.

As at March 31, 2018, the Company had outstanding interest swap arrangements that hedged a portion of interest rate risk arising from floating rate, dollar denominated foreign currency borrowing of U.S.\$50. As at March 31, 2017, the Company had no outstanding interest rate swap arrangements.

F-57



**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**30. Financial risk management**

The Company's activities expose it to a variety of financial risks, including market risk, credit risk and liquidity risk. The Company's primary risk management focus is to minimize potential adverse effects of market risk on its financial performance. The Company's risk management assessment and policies and processes are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor such risks and compliance with the same. Risk assessment and management policies and processes are reviewed regularly to reflect changes in market conditions and the Company's activities. The Board of Directors and the Audit Committee is responsible for overseeing the Company's risk assessment and management policies and processes.

*a. Market risk*

Market risk is the risk of loss of future earnings, fair values or future cash flows that may result from adverse changes in market rates and prices (such as interest rates, foreign currency exchange rates and commodity prices) or in the price of market risk-sensitive instruments as a result of such adverse changes in market rates and prices. Market risk is attributable to all market risk-sensitive financial instruments, all foreign currency receivables and payables and all short term and long-term debt. The Company is exposed to market risk primarily related to foreign exchange rate risk, interest rate risk and the market value of its investments. Thus, the Company's exposure to market risk is a function of investing and borrowing activities and revenue generating and operating activities in foreign currencies.

*Foreign exchange risk*

The Company's foreign exchange risk arises from its foreign operations, foreign currency revenues and expenses, (primarily in U.S. dollars, Russian roubles, U.K. pounds sterling and Euros) and foreign currency borrowings (in U.S. dollars, Russian roubles, Ukrainian hryvnias and Euros). A significant portion of the Company's revenues are in these foreign currencies, while a significant portion of its costs are in Indian rupees. As a result, if the value of the Indian rupee appreciates relative to these foreign currencies, the Company's revenues measured in Indian rupees may decrease. The exchange rate between the Indian rupee and these foreign currencies has changed substantially in recent periods and may continue to fluctuate substantially in the future. Consequently, the Company uses both derivative and

non-derivative financial instruments, such as foreign exchange forward contracts, option contracts, currency swap contracts and foreign currency financial liabilities, to mitigate the risk of changes in foreign currency exchange rates in respect of its highly probable forecast transactions and recognized assets and liabilities.

The details in respect of the outstanding foreign exchange forward and option contracts are given in Note 29 above.

In respect of the Company's forward and option contracts, a 10% decrease/increase in the respective exchange rates of each of the currencies underlying such contracts would have resulted in:

a Rs.1,277/(1,338) increase/(decrease) in the Company's hedging reserve and a Rs.403/(308) increase/(decrease) in the Company's profit from such contracts, as at March 31, 2018;

a Rs.1,154/(710) increase/(decrease) in the Company's hedging reserve and a Rs.2,143/(2,287) increase/(decrease) in the Company's profit from such contracts, as at March 31, 2017; and

a Rs.1,511/(424) increase/(decrease) in the Company's hedging reserve and a Rs.1,277/(1,707) increase/(decrease) in the Company's profit from such contracts, as at March 31, 2016.

The following table analyzes foreign currency risk from non-derivative financial instruments as at March 31, 2018:

|                                  | U.S.<br>dollars | Euro     | Russian<br>roubles | Others <sup>(1)</sup> | Total     |
|----------------------------------|-----------------|----------|--------------------|-----------------------|-----------|
| Assets:                          |                 |          |                    |                       |           |
| Cash and cash equivalents        | Rs.392          | Rs.62    | Rs.56              | Rs.512                | Rs.1,022  |
| Other investments                | -               | -        | -                  | 20                    | 20        |
| Trade and other receivables      | 25,427          | 437      | 6,691              | 2,592                 | 35,147    |
| Other assets                     | 125             | 85       | 260                | 196                   | 666       |
| Total                            | Rs.25,944       | Rs.584   | Rs.7,007           | Rs.3,320              | Rs.36,855 |
| Liabilities:                     |                 |          |                    |                       |           |
| Trade and other payables         | Rs.3,526        | Rs.1,658 | Rs.2               | Rs.1,118              | Rs.6,304  |
| Long-term borrowings             | 4,888           | -        | -                  | -                     | 4,888     |
| Short-term borrowings            | 19,552          | -        | 2,378              | 178                   | 22,108    |
| Other liabilities and provisions | 5,147           | 104      | 1,896              | 770                   | 7,917     |
| Total                            | Rs.33,113       | Rs.1,762 | Rs.4,276           | Rs.2,066              | Rs.41,217 |

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in millions, except share and per share data)

**30. Financial risk management (continued)***a. Market risk (continued)*

The following table analyzes foreign currency risk from non-derivative financial instruments as at March 31, 2017:

|                                  | U.S.<br>dollars | Euro      | Russian<br>roubles | Others <sup>(1)</sup> | Total      |
|----------------------------------|-----------------|-----------|--------------------|-----------------------|------------|
| Assets:                          |                 |           |                    |                       |            |
| Cash and cash equivalents        | Rs. 130         | Rs. 87    | Rs. 59             | Rs. 840               | Rs. 1,116  |
| Other investments                | -               | -         | -                  | 14                    | 14         |
| Trade and other receivables      | 24,581          | 567       | 6,259              | 2,121                 | 33,528     |
| Other assets                     | 458             | -         | 70                 | 33                    | 561        |
| Total                            | Rs. 25,169      | Rs. 654   | Rs. 6,388          | Rs. 3,008             | Rs. 35,219 |
| Liabilities:                     |                 |           |                    |                       |            |
| Trade and other payables         | Rs. 2,323       | Rs. 903   | Rs. -              | Rs. 328               | Rs. 3,554  |
| Long-term borrowings             | 4,865           | -         | 76                 | -                     | 4,941      |
| Short-term borrowings            | 12,970          | -         | 4,023              | -                     | 16,993     |
| Bank overdraft                   | 86              | -         | -                  | -                     | 86         |
| Other liabilities and provisions | 6,660           | 117       | 1,640              | 622                   | 9,039      |
| Total                            | Rs. 26,904      | Rs. 1,020 | Rs. 5,739          | Rs. 950               | Rs. 34,613 |

<sup>(1)</sup> Others primarily consists of U.K. pounds sterling, Swiss francs, Romanian new leus and Ukrainian hryvnia.

For the years ended March 31, 2018 and 2017, every 10% depreciation/appreciation in the exchange rate between the Indian rupee and the respective currencies for the above mentioned financial assets/liabilities would affect the Company's net profit by Rs.434 and Rs.61, respectively.

*Interest rate risk*

As of March 31, 2018, the Company had Rs.42,592 of loans carrying a floating interest rate ranging from 1 Month LIBOR minus 30 bps to 1 Month/3 Months LIBOR plus 85 bps. As of March 31, 2017, the Company had Rs.41,407 of loans carrying a floating interest rate of 1 Month LIBOR minus 30 bps to 1 Month LIBOR plus 82.7 bps and the Indian Treasury Bill plus 30 bps. These loans expose the Company to risk of changes in interest rates. The Company's treasury department monitors the interest rate movement and manages the interest rate risk based on its policies, which include entering into interest rate swaps as considered necessary.

For details of the Company's short-term and long term loans and borrowings, including interest rate profiles, refer to Note 17 of these consolidated financial statements.

For the years ended March 31, 2018, 2017 and 2016, every 10% increase or decrease in the floating interest rate component (i.e., LIBOR) applicable to its loans and borrowings would affect the Company's net profit by Rs.77, Rs.46 and Rs.12, respectively.

The carrying value of the Company's borrowings designated in a cash flow hedge as of March 31, 2018 was Rs.3,259. In respect of these borrowings, a 10% decrease/increase in the interest rates of such borrowings would have resulted in Rs.18/(20) increase/decrease in the Company's hedging reserve as at March 31, 2018.

The Company's investments in term deposits (i.e., certificates of deposit) with banks and short-term liquid mutual funds are for short durations, and therefore do not expose the Company to significant interest rates risk.

*Commodity rate risk*

Exposure to market risk with respect to commodity prices primarily arises from the Company's purchases and sales of active pharmaceutical ingredients, including the raw material components for such active pharmaceutical ingredients. These are commodity products, whose prices may fluctuate significantly over short periods of time. The prices of the Company's raw materials generally fluctuate in line with commodity cycles, although the prices of raw materials used in the Company's active pharmaceutical ingredients business are generally more volatile. Cost of raw materials forms the largest portion of the Company's cost of revenues. Commodity price risk exposure is evaluated and managed through operating procedures and sourcing policies. As of March 31, 2018, the Company had not entered into any material derivative contracts to hedge exposure to fluctuations in commodity prices.

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**30. Financial risk management (continued)**

***b. Credit risk***

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities. Credit risk is managed through credit approvals, establishing credit limits and continuously monitoring the creditworthiness of customers to which the Company grants credit terms in the normal course of business. The Company establishes an allowance for doubtful debts and impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments.

*Trade and other receivables*

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the customer, including the default risk of the industry and country in which the customer operates, also has an influence on credit risk assessment. Credit risk is managed through credit approvals, establishing credit limits and continuously monitoring the creditworthiness of customers to which the Company grants credit terms in the normal course of business.

*Investments*

The Company limits its exposure to credit risk by generally investing in liquid securities and only with counterparties that have a good credit rating. The Company does not expect any losses from non-performance by these counter-parties, and does not have any significant concentration of exposures to specific industry sectors or specific country risks.

*Financial assets that are neither past due nor impaired*

None of the Company's cash equivalents, including term deposits (i.e., certificates of deposit) with banks, were past due or impaired as at March 31, 2018. Of the total trade and other receivables, Rs.35,748 as at March 31, 2018 and Rs.27,809 as at March 31, 2017 consisted of customer balances that were neither past due nor impaired.

*Financial assets that are past due but not impaired*

The Company's credit period for customers generally ranges from 20 - 180 days. The aging of trade and other receivables that are past due but not impaired is given below:

| Period (in days) | As of March 31, |           |
|------------------|-----------------|-----------|
|                  | 2018            | 2017      |
| 1 – 90           | Rs.4,510        | Rs.8,380  |
| 90 – 180         | 177             | 707       |
| More than 180    | 1,303           | 1,376     |
| Total            | Rs.5,990        | Rs.10,463 |

See Note 12 of these consolidated financial statements for the activity in the allowance for impairment of trade and other receivables.

Other than trade receivables, the Company has no significant class of financial assets that is past due but not impaired.

***c. Liquidity risk***

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by ensuring, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk to the Company's reputation.

As of March 31, 2018 and 2017, the Company had unutilized credit limits from banks of Rs.24,046 and Rs.21,156, respectively.

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As of March 31, 2018, the Company had working capital of Rs.39,953, including cash and cash equivalents of Rs.2,638, investments in term deposits (i.e., bank certificates of deposit having original maturities of more than 3 months), bonds and commercial paper of Rs.3,552 and investments in available-for-sale financial assets of Rs.14,778. As of March 31, 2017, the Company had working capital of Rs.15,198, including cash and cash equivalents of Rs.3,866, investments in term deposits (i.e., bank certificates of deposit having original maturities of more than 3 months) of Rs.3,389 and investments in available-for-sale financial assets of Rs.10,881.

The table below provides details regarding the contractual maturities of significant financial liabilities (other than long term loans, borrowings and obligations under finance leases, which have been disclosed in Note 17 to these consolidated financial statements) as at March 31, 2018:

| Particulars                                     | 2019       | 2020  | 2021  | 2022  | Thereafter | Total      |
|---|------------|-------|-------|-------|------------|------------|
| Trade and other payables                        | Rs. 16,052 | Rs. - | Rs. - | Rs. - | Rs. -      | Rs. 16,052 |
| Bank overdraft, short-term loans and borrowings | 25,562     | -     | -     | -     | -          | 25,562     |
| Other liabilities and provisions                | 19,885     | 92    | 16    | 16    | 703        | 20,712     |
| Derivative financial instruments - liabilities  | 85         | -     | -     | -     | -          | 85         |

F-60

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in millions, except share and per share data)

**30. Financial risk management (continued)***c. Liquidity risk (continued)*

The table below provides details regarding the contractual maturities of significant financial liabilities (other than long term loans, borrowings and obligations under finance leases, which have been disclosed in Note 17 to these consolidated financial statements) as at March 31, 2017:

| Particulars                                     | 2018       | 2019  | 2020  | 2021  | Thereafter | Total      |
|---|------------|-------|-------|-------|------------|------------|
| Trade and other payables                        | Rs. 13,417 | Rs. - | Rs. - | Rs. - | Rs. -      | Rs. 13,417 |
| Bank overdraft, short-term loans and borrowings | 43,626     | -     | -     | -     | -          | 43,626     |
| Other liabilities and provisions                | 19,564     | 88    | 7     | 9     | 723        | 20,391     |
| Derivative financial instruments - liabilities  | 10         | -     | -     | -     | -          | 10         |

**31. Collaboration agreement with Curis, Inc.**

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

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



As partial consideration for the collaboration, pursuant to a Stock Purchase Agreement dated January 18, 2015, Curis issued to Aurigene 17.1 million shares of its common stock, representing 19.9% of its outstanding common stock immediately prior to the transaction (approximately 16.6% of its outstanding common stock immediately after the transaction). Such shares were initially subject to a lock-up agreement. However, as of March 31, 2017, lock-up restrictions were released on all of the aforementioned 17.1 million shares. In connection with the issuance of such shares, Curis and Aurigene entered into a Registration Rights Agreement dated January 18, 2015 which provides for certain registration rights with respect to resale of the shares. The common stock of Curis is listed for quotation on the NASDAQ Global Market.

The fair value of the shares of Curis common stock on the date of the Stock Purchase Agreement was Rs.1,452 (U.S.\$23.5).

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

Under the Collaboration Agreement, Aurigene is entitled to development and commercial milestone payments as follows:

for the first two programs: up to U.S.\$52.5 per program, including U.S.\$42.5 for approval and commercial milestones, plus pre-specified approval milestone payments for additional indications, if any;

for the third and fourth programs: up to U.S.\$50 per program, including U.S.\$42.5 for approval and commercial milestones, plus pre-specified approval milestone payments for additional indications, if any; and

for any program thereafter: up to U.S.\$140.5 per program, including U.S.\$87.5 for approval and commercial milestones, plus pre-specified approval milestone payments for additional indications, if any.

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

On September 7, 2016, the Collaboration Agreement was amended to provide for the issuance to Aurigene of approximately 10.2 million additional shares of Curis common stock in lieu of receiving up to U.S.\$24.5 of milestone

and other payments from Curis that could have become due under the Collaboration Agreement. These shares of Curis common stock are recorded at U.S.\$1.84 per share, which is equal to the market price of such shares of common stock on the date of issuance, amounting to an aggregate market value of Rs.1,247 (U.S.\$18.8).

These additional shares are also subject to a lock-up agreement, which is similar to the lock-up for the original Curis shares the Company received. However, this lock-up remains effective until September 7, 2018, with shares being released from such lock-up in 25% increments on each of March 7, 2017, September 7, 2017, March 7, 2018 and September 7, 2018, subject to acceleration of release of all the shares in connection with a change of control of Curis. As of March 31, 2018, lock-up restrictions were released on an aggregate of 7.65 million of such additional shares of Curis common stock, representing 75% of the shares which Aurigene received from Curis in 2016.

F-61

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**31. Collaboration agreement with Curis, Inc. (continued)**

The Company has evaluated the transaction under IAS 28, "Investments in associates and Joint Ventures," and believes that the Company does not have any significant influence with respect to Curis. Accordingly, all of the shares of Curis common stock are classified as available-for-sale financial instruments and are re-measured at fair value at every reporting date. Accordingly, loss of Rs.1,535 arising from changes in the fair value of such shares of common stock was recognized in other comprehensive income as of March 31, 2018.

In May 2018, Curis completed a 1-for-5 reverse stock split of Curis's common stock. After giving effect to such stock split, the total number of Curis equity shares held by the Company is 5.47 million.

This arrangement is accounted for as a joint operation under IFRS 11.

**32. Agreement with Merck Serono**

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

During the three months ended December 31, 2015, the Company received from Merck KGaA certain amounts relating to its share of development costs and other amounts linked to the achievement of milestones for the development of compounds under the collaboration agreement, as amended.

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

On September 1, 2017, Fresenius Kabi acquired the biosimilars business of Merck KgaA. Since then, the Company's collaboration has continued as planned with Fresenius Kabi.

### 33. Asset purchase agreement with Teva Pharmaceutical Industries Limited

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

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

Tabulated below are the details of products acquired and the respective purchase prices in U.S.\$, along with the corresponding amount in Rs. as of the payment date:

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

The Company recorded the aforesaid acquisition of these ANDAs as "product related intangibles". The aforesaid acquisition forms part of the Company's Global Generics segment. During the three months ended June 30, 2017, the Company launched the product for one of the eight ANDAs acquired (ezetimibe and simvastatin tablets). The carrying

cost of the ANDA as at March 31, 2018 was Rs.697 and the useful life is eight years. The carrying cost of the other seven ANDAs as at March 31, 2018 was Rs.22,573. As these ANDAs are not available for use yet, they are not subject to amortization.

F-62

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in millions, except share and per share data)

**34. Significant asset purchase agreements**

Tabulated below are certain significant asset purchase agreements entered into by the Company during its fiscal years ended March 31, 2016, 2017 and 2018:

| Month and Year                | Counterparty                             | Brief particulars of the asset / agreement   | Useful life               | Carrying value as at March 31, 2018 |
|-------------------------------|--|--|---------------------------|-------------------------------------|
| June 2015                     | UCB India Private Limited and affiliates | Purchase of a select portfolio of established products business in the territories of India, Nepal, Sri Lanka and Maldives to strengthen our presence in the areas of dermatology, respiratory and pediatric products, all for a total purchase consideration of Rs.8,000.   | 9 to 15 years             | Rs. 6,081                           |
| September 2015                | Hatchtech Pty Limited                    | Purchase of intellectual property rights of an innovative prescription head lice product, Xeglyze™ lotion. Consideration was an upfront amount of Rs.606 plus certain milestone-based payments.  | Not available for use yet | Rs. 1,011                           |
| November 2015                 | Alchemia Limited                         | Purchase of worldwide, exclusive intellectual property rights to fondaparinux sodium, all for an aggregate consideration of Rs.1,158.  | 4 years                   | Rs. 459                             |
| March 2016                    | XenoPort, Inc.                           | Purchase of exclusive U.S. rights for the development and commercialization of XenoPort's clinical stage oral new chemical entity, all for an aggregate consideration of Rs.3,159. The Company plans to develop the in-licensed compound as a potential treatment for moderate-to-severe chronic plaque psoriasis and for relapsing forms of multiple sclerosis. | Not available for use yet | Rs. 3,219                           |
| March 2016 and September 2017 | Eisai Company Limited                    | Acquisition of commercialization rights for an anti-cancer biologic agent (E7777) from Eisai Company Limited. The consideration was an upfront amount plus certain milestone-based payments.   | Not available for use yet | Rs. 1,065                           |
| May 2016                      | Ducere Pharma LLC                        | Purchase of certain pharmaceutical brands to strengthen the Company's presence in the dermatology, cough-and-cold and pain therapeutic areas forming part of the Company's OTC business in the United States, all for an aggregate consideration of Rs.1,148.  | 15 years                  | Rs. 980                             |

|                  |                         |   |                           |         |
|------------------|-------------------------|---|---------------------------|---------|
| November<br>2016 | Gland Pharma<br>Limited | Acquisition of the rights to in-license, market and distribute eight injectable ANDAs, all for an aggregate consideration of U.S.\$5.9. | Not available for use yet | Rs. 231 |
|------------------|-------------------------|---|---------------------------|---------|

In addition, in June 2016 the Company entered into an asset purchase agreement with Teva (refer to Note 33 of these consolidated financial statements for further details).

### 35. Significant out-licensing agreements

| Month<br>and Year | Counterparty                       | Product | Brief particulars of the agreement   |
|-------------------|------------------------------------|---------|--|
| July 2017         | CHD<br>Biosciences<br>Inc. ("CHD") | DFA-02  | As a consideration for out-licensing the Phase III clinical trial candidate, DFA-02, the Company is entitled to receive equity shares in CHD valued at U.S.\$30 upon an initial public offering of CHD or, if no initial public offering occurs within 18 months of execution of the agreement, a cash payment of U.S.\$30. The Company will also receive additional milestone payments of U.S.\$40 upon U.S. FDA approval. In addition, the Company is entitled to royalties on sales and certain other commercial milestone payments with respect to the product. At the time of execution, as the arrangement did not meet all of the revenue recognition criteria under IAS 18, no revenue has been recognized for the transaction.<br>The consideration for this arrangement consists of up to U.S.\$20 in upfront payments and amounts contingent upon satisfaction of certain approval milestones, plus up to U.S.\$12.5 of amounts contingent upon satisfaction of certain patent and commercial milestones. In addition, the Company is entitled to royalties on net sales. During the three months ended December 31, 2017, all of the performance obligations relating to the approval milestones were met, and consequently, revenue of U.S.\$20 was recognized. |
| September<br>2017 | Encore<br>Dermatology<br>Inc.      | DFD-06  | The consideration for this arrangement consists of up to U.S.\$20 in upfront payments and amounts contingent upon satisfaction of certain approval milestones, plus up to U.S.\$12.5 of amounts contingent upon satisfaction of certain patent and commercial milestones. In addition, the Company is entitled to royalties on net sales. During the three months ended December 31, 2017, all of the performance obligations relating to the approval milestones were met, and consequently, revenue of U.S.\$20 was recognized.  |

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**36. Receipt of warning letter from the U.S. FDA**

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

The warning letter does not restrict production or shipment of the Company's products from these facilities. However, unless and until the Company is able to correct outstanding issues to the U.S. FDA's satisfaction, the U.S. FDA may withhold approval of new products and new drug applications of the Company, refuse admission of products manufactured at the facilities noted in the warning letter into the United States, and/or take additional regulatory or legal action against the Company. Any such further action could have a material and negative impact on the Company's ongoing business and operations. During the years ended March 31, 2016, 2017 and 2018, the U.S. FDA withheld approval of new products from these facilities pending resolution of the issues identified in the warning letter. To minimize the business impact, the Company transferred certain key products to alternate manufacturing facilities.

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

In June 2017, the U.S. FDA issued an Establishment Inspection Report ("EIR") which indicated that the inspection of the Company's API manufacturing facility at Miryalaguda is successfully closed. With regard to the Company's oncology manufacturing facility at Duvvada and its API manufacturing facility at Srikakulam, the Company received



EIRs from the U.S.FDA in November 2017 and February 2018, respectively, which indicated that the inspection status of these facilities remains unchanged.

*Inspection of other facilities:*

In May and June 2017, inspection of the Company's Formulations Srikakulam Plant (SEZ) Unit II and I, India, was completed by the U.S. FDA with zero and one observations, respectively, and the U.S. FDA issued EIRs in September 2017 for both Units II and I, indicating the closure of the audit for these facilities.

The inspection of the Company's Custom Pharmaceutical Services facility in Hyderabad, India was completed by the U.S. FDA on September 21, 2017 with zero observations, and the U.S. FDA issued an EIR in December 2017 indicating the closure of audit for this facility.

In April 2017, inspection of the Company's formulations manufacturing facility at Bachupally, Hyderabad was completed by the U.S. FDA and the Company was issued a Form 483 with 11 observations. In December 2017, the U.S. FDA issued an EIR which indicates the closure of the audit for this facility.

In July 2017, inspection of the Company's API facility in Cuernavaca, Mexico was completed by the U.S. FDA with zero observations, and the U.S. FDA issued an EIR in April 2018 indicating the closure of the audit for this facility.

The inspection of the Company's API facility in Mirfield, United Kingdom was completed by the U.S. FDA on September 15, 2017, and the Company was issued a Form 483 with three observations. The Company responded to the observations identified by the U.S. FDA, and the U.S. FDA issued an EIR on April 24, 2018, which indicates the closure of the audit for this facility.

In March 2018, inspection of two of the Company's API manufacturing facilities namely, the API Hyderabad Plant 1 and the API Hyderabad Plant 3, was completed by the U.S. FDA with four and five observations, respectively. The observations at API Hyderabad Plant 3 were related to procedures and facility maintenance. The Company has responded to the observations relating to both these facilities and believes that it can address all these observations comprehensively in a timely manner.

In June 2018, an inspection of the Company's API Srikakulam Plant (SEZ) was completed by the U.S.FDA with zero observations.

**37. Inspection by the regulatory authority of Bavaria, Germany**

In August 2017, the Company's German subsidiary betapharm Arzneimittel GmbH received a letter from a regulatory authority of Bavaria, Germany (the Regierung von Oberbayern, which is the Central Authority for Supervision of Medicinal Products in Bavaria of the Upper Bavarian government) (the "Regulator"), that the GMP compliance certificate for the Company's formulations manufacturing facility at Bachupally, Hyderabad was not renewed as the result of GMP compliance deviations identified in an inspection. Consequently, this manufacturing facility was not permitted to export products to the European Union (the "EU") until satisfactory resolution of the issues identified in the inspection and renewal of the facility's GMP compliance certificate. The manufacturing facility was re-inspected in January 2018 and the status of non-compliance was withdrawn. The facility is now permitted to dispatch approved products to the EU.

F-64

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**37. Inspection by the regulatory authority of Bavaria, Germany (continued)**

Furthermore, on September 7, 2017, the Regulator concluded an inspection of the Company's formulations manufacturing facility at Duvvada, Visakhapatnam, with zero critical and six major observations. Products manufactured at the facility are not currently exported to the EU. The Company submitted a Corrective and Preventive Action Plan ("CAPA") to the Regulator in this regard which was accepted by the Regulator. Consequently, the Regulator permitted the Company to start production from this facility for the EU market. The German Regulator intends to re-inspect this facility by the end of calendar year 2018.

**38. Venezuela subsidiary operations**

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

*Overhaul of the exchange rate system in Venezuela*

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

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

March 10, 2016:

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

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

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

The Company fully considered all the aforesaid developments, facts and circumstances and, following the guidance available in IAS 21, determined that it was appropriate to use the SIMADI/DICOM rate for translating the monetary assets and liabilities of the Venezuelan subsidiary as at various reporting dates. Tabulated below was the impact of the foregoing on the financial statements of the Company as at March 31, 2015 and 2016:

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

*Update for the year ended March 31, 2017*

Revenues for the year ended March 31, 2017 were Rs.17 (VEF 162). During the year ended March 31, 2017, the Company received approvals from the Venezuelan government to repatriate U.S.0.4 at the preferential rate of 10 VEF per U.S.1.00.

The Company applied the DICOM rate for translating the financial statements of the Venezuelan subsidiary for the year ended March 31, 2017. As a result, foreign exchange loss of Rs.41 was recognized for the year ended March 31, 2017.

*Update for the year ended March 31, 2018*

No revenues were recorded for the year ended March 31, 2018. During the year ended March 31, 2018, the Company has not received any approvals from the Venezuelan government to repatriate funds from importation of pharmaceutical products at the DIPRO preferential rate. The Company has applied the DICOM rate for translating the financial statements of the Venezuelan subsidiary for the year ended March 31, 2018.

In January 2018, the government announced further changes to the foreign exchange system and abolished the DIPRO preferential rate. As a result, foreign exchange loss of Rs.29 was recognized by the Company for the year ended March 31, 2018. As of March 31, 2018, the DICOM rate was VEF 49,375 per U.S.\$1.00.

F-65

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**39. Contingencies**

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

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

***Product and patent related matters***

**Matters relating to National Pharmaceutical Pricing Authority**

*Norfloxacin, India litigation*

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

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

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

During the three months ended December 31, 2016, a writ petition pertaining to Norfloxacin was filed by the Company with the Delhi High Court. Upon the request of the respondents to file a counter, the Delhi High Court has adjourned the matter to November 26, 2018.

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

F-66



**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**39. Contingencies (continued)**

*Product and patent related matters (continued)*

*Litigation relating to Cardiovascular and Anti-diabetic formulations*

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

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

On March 20, 2017, the IPA filed an application before the Bombay High Court for the recall of the judgment of the Bombay High Court dated September 26, 2016. This recall application filed by the IPA was dismissed by the Bombay High Court on October 4, 2017. Further, on December 13, 2017, the IPA filed a Special Leave Petition with the Supreme Court for the recall of the judgment of the Bombay High Court dated October 4, 2017, which was dismissed by Supreme Court on January 10, 2018.

During the three months ended March 31, 2017, the NPPA issued notices to the Company demanding payments relating to the foregoing products for the allegedly overcharged amounts, along with interest. On July 13, 2017, in response to a writ petition which the Company had filed, the Delhi High Court set aside all the demand notices of the NPPA and directed the NPPA to provide a personal hearing to the Company and pass a speaking order. A personal hearing in this regard was held on July 21, 2017. On July 27, 2017, the NPPA passed a speaking order along with the demand notice directing the Company to pay an amount of Rs.776. On August 3, 2017, the Company filed a writ petition challenging the speaking order and the demand notice. Upon hearing the matter on August 8, 2017, the Delhi High Court stayed the operation of the demand order and directed the Company to deposit Rs.100 and furnish a bank guarantee for Rs.676. Pursuant to the order, the Company deposited Rs.100 on September 13, 2017 and submitted a bank guarantee of Rs.676 dated September 15, 2017 to the Registrar General, Delhi High Court. On November 22, 2017, the Delhi High Court directed the Union of India to file a final counter affidavit within six weeks, subsequent to which the Company could file a rejoinder. On May 10, 2018, the counter affidavit was filed by the Union of India. The Company subsequently filed a rejoinder and both were taken on record by the Delhi High Court. The matter has been adjourned to August 8, 2018 for hearing.

Based on its best estimate, the Company has recorded a provision of Rs.416 under “Selling, general and administrative expenses” as a potential liability for sale proceeds in excess of the notified selling prices, including the interest thereon, and believes that the likelihood of any further liability that may arise on account of penalties pursuant to this litigation is not probable.

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

### ***Other product and patent related matters***

#### *Nexium United States litigations*

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

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

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

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

F-67

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**39. Contingencies (continued)**

*Product and patent related matters (continued)*

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

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

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

*Child resistant packaging matter*

In May 2012, the Consumer Product Safety Commission (the "CPSC") requested that Dr. Reddy's Laboratories Inc., a wholly-owned subsidiary of the Company in the United States, provide certain information with respect to compliance with requirements of special packaging for child resistant blister packs for 6 products sold by the Company in the United States during the period commencing in 2002 through 2011. The Company provided the requested information. The CPSC subsequently alleged in a letter dated April 30, 2014 that the Company had violated the Consumer Product Safety Act (the "CPSA") and the Poison Prevention Packaging Act (the "PPPA") and that the CPSC intended to seek civil penalties. Specifically, the CPSC asserted, among other things, that from or about August 14, 2008 through June 1, 2012, the Company sold prescription drugs having unit dose packaging that failed to comply with the CPSC's special child resistant packaging regulations under the PPPA and failed to issue general certificates of

conformance. In addition, the CPSC asserted that the Company violated the CPSA by failing to immediately advise the CPSC of the alleged violations. The Company disagrees with the CPSC's allegations.

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

The Company filed its response to the FCA Complaint on February 23, 2016 in the form of a motion to dismiss for failure to state a claim upon which relief can be granted. On March 26, 2017, the Court granted the Company's motion to dismiss, dismissing the FCA Complaint and allowing the plaintiffs one more chance to refile this complaint in an attempt to plead sustainable allegations. On March 29, 2017, the plaintiffs filed their final amended FCA Complaint, which the Company opposed and during the three months ended March 31, 2018, the Company obtained dismissal of the FCA Complaint with prejudice. The plaintiffs filed a petition with the Court requesting that the Court reconsider its decision to dismiss the FCA Complaint with prejudice, and that request was denied.

The parallel investigation by the CPSC under the CPSA and the PPPA was referred by the CPSC to the DOJ's office in Washington, D.C. in April 2016, with the recommendation that the DOJ initiate a civil penalty action against the Company. The CPSC matter referred to the DOJ relates to five of the blister pack products.

On January 18, 2018, the Company and the DOJ entered into a settlement of the action and agreed to a consent decree providing for a civil penalty of U.S.\$5 (Rs.319), and injunctive relief. The settlement was without adjudication of any issue of fact or law, and the Company has not admitted any violations of law pursuant to this settlement.

#### *Namenda United States Litigations*

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

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

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

F-68

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**39. Contingencies (continued)**

*Product and patent related matters (continued)*

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

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

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

*Class Action and Other Civil Litigation on Pricing/Reimbursement Matters*

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

mg tablets ER 24H) and generic pravastatin sodium (bottle of 500, 10 mg tablets).

The First Pricing Complaint was removed to the U.S. District Court for the Eastern District of Pennsylvania (the “E.D.P.A. Federal Court”) and, pending the outcome of the First Pricing Complaint, the Second Pricing Complaint was stayed. On September 25, 2017, the E.D.P.A. Federal Court dismissed all the claims of the plaintiffs in the First Pricing Complaint and denied leave to amend such complaint as futile. Subsequent to this decision, the plaintiffs right to appeal the dismissal of the First Pricing Complaint expired.

Further, on November 17, 2016, certain class action complaints were filed against the Company and a number of other pharmaceutical companies as defendants in the E.D.P.A. Federal Court. Subsequently, these complaints were consolidated into one amended complaint as part of a multi-district, multi-product litigation pending with the E.D.P.A. Federal Court. These complaints allege that the Company and the other named defendants have engaged in a conspiracy to fix prices and to allocate bids and customers in the sale of pravastatin sodium tablets and divalproex sodium extended-release tablets in the United States. In March 2017, plaintiffs agreed by stipulation to dismiss Dr. Reddy’s Laboratories Inc. and Dr. Reddy’s Laboratories Limited from the actions related to pravastatin sodium tablets without prejudice. The Company denies any wrongdoing and intends to vigorously defend against these allegations.

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

#### ***Civil litigation with Mezzion***

On January 13, 2017, Mezzion Pharma Co. Ltd. and Mezzion International LLC (collectively, “Mezzion”) filed a complaint in the New Jersey Superior Court against the Company and its wholly owned subsidiary in the United States. The complaint pertains to the production and supply of the active pharmaceutical ingredient (“API”) for udenafil (a patented compound) and an udenafil finished dosage product during a period from calendar years 2007 to 2015. Mezzion alleges that the Company failed to comply with the U.S. FDA’s current Good Manufacturing Practices (“cGMP”) at the time of manufacture of the API and finished dosage forms of udenafil and, consequently, that this resulted in a delay in the filing of a NDA for the product by Mezzion. In this regard, the Company filed a motion to dismiss Mezzion’s complaint on the technical grounds that the Court lacks jurisdiction over the Company. In January 2018, the Court denied the Company’s motion to dismiss the complaint on the jurisdictional matter. Company’s interlocutory appeal of the said denial, was also denied.

The Company denies any wrongdoing or liability in this regard, and intends to vigorously defend against the claims asserted in Mezzion’s complaint. Any liability that may arise on account of this complaint is unascertainable. Accordingly, no provision was made in the consolidated financial statements of the Company.





**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**39. Contingencies (continued)**

*Shareholder Class Action Litigation*

On August 25, 2017, a securities class action lawsuit was filed against the Company, its Chief Executive Officer and its Chief Financial Officer in the United States District Court for the District of New Jersey. The Company's Co-Chairman, its Chief Operating Officer, and Dr. Reddy's Laboratories, Inc., were also subsequently named as defendants in the case. The operative complaint alleges that the Company made false or misleading statements or omissions in its public filings, in violation of U.S. federal securities laws, and that the Company's share price dropped and its investors were affected. On May 9, 2018, the Company and other defendants filed a motion to dismiss the complaint in the United States District Court for the District of New Jersey.

The Company believes that the asserted claims are without merit and intends to vigorously defend itself against the allegations. Any liability that may arise on account of this complaint is unascertainable. Accordingly, no provision was made in the consolidated financial statements of the Company.

*Environmental matters*

*Land pollution*

The Indian Council for Environmental Legal Action filed a writ in 1989 under Article 32 of the Constitution of India against the Union of India and others in the Supreme Court of India for the safety of people living in the Patancheru and Bollaram areas of Medak district of the then existing undivided state of Andhra Pradesh. The Company has been named in the list of polluting industries. In 1996, the Andhra Pradesh District Judge proposed that the polluting industries compensate farmers in the Patancheru, Bollaram and Jeedimetla areas for discharging effluents which damaged the farmers' agricultural land. The compensation was fixed at Rs.0.0013 per acre for dry land and Rs.0.0017 per acre for wet land. Accordingly, the Company has paid a total compensation of Rs.3. The Andhra Pradesh High

Court disposed of the writ petition on February 12, 2013 and transferred the case to the National Green Tribunal (“NGT”), Chennai, India. The interim orders passed in the writ petitions will continue until the matter is decided by the NGT. The NGT has, through its order dated October 30, 2015, constituted a Fact Finding Committee. The NGT has also permitted the alleged polluting industries to appoint a person on their behalf in the Fact Finding Committee. However, the Company, along with the alleged polluting industries, has challenged the constitution and composition of the Fact Finding Committee. The NGT has directed that until all the applications challenging the constitution and composition of the Fact Finding Committee are disposed of, the Fact Finding Committee shall not commence its operation.

The NGT, Chennai in a judgment dated October 24, 2017, disposed of the matter. The Bulk Drug Manufacturers Association of India (“BDMAI”), in which the Company is a member, subsequently filed a review petition against the judgment on various aspects.

The NGT, Delhi, in a judgment dated November 16, 2017 in another case in which the Company is not a party, stated that the moratorium imposed in the Patancheru and Bollaram areas shall continue until the Ministry of Environment, Forest and Climate Change passes an order keeping in view the needs of the environment and public health.

The Company believes that any additional liability that might arise in this regard is not material to the consolidated financial statements. Accordingly, no provision relating to these claims has been made in the consolidated financial statements as of March 31, 2018.

#### *Water pollution and air pollution*

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

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

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

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

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

F-70

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****(in millions, except share and per share data)****39. Contingencies (continued)***Indirect taxes related matters**Distribution of input service tax credits*

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

| <b>Period covered under the notice</b> | <b>Amount demanded</b>                       | <b>Status</b>   |
|--|--|---|
| March 2008 to September 2009           | Rs.102 plus penalties of Rs.102 and interest | The Company has filed an appeal before the CESTAT         |
| October 2009 to March 2011             | Rs.125 plus penalties of Rs.100 and interest | The Company has filed an appeal before the CESTAT         |
| April 2011 to March 2012               | Rs.51 plus interest and penalties            | The Company has filed an appeal before the CESTAT         |
| April 2012 to March 2013               | Rs.54 plus interest and penalties            | The Company has filed an appeal before the CESTAT         |
| April 2013 to March 2014               | Rs.69 plus interest and penalties            | The Company has filed an appeal before the CESTAT         |
| April 2014 to March 2015               | Rs.108 plus interest and penalties           | The Company has filed an appeal before the CESTAT         |
| April 2015 to March 2016               | Rs.157 plus interest and penalties           | The Company is in the process of responding to the notice |

The Company believes that the likelihood of any liability that may arise on account of the allegedly inappropriate distribution of input service tax credits is not probable. Accordingly, no provision relating to these claims has been made in these consolidated financial statements as of March 31, 2018.

*Value Added Tax (“VAT”) matter*

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

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

The Company has recorded a provision of Rs.27 as of March 31, 2018, and believes that the likelihood of any further liability that may arise on account of the allegedly inappropriate claims to VAT credits is not probable.

*Others*

Additionally, the Company is in receipt of various demand notices from the Indian Sales and Service Tax authorities. The disputed amount is Rs.278. The Company has responded to such demand notices and believes that the chances of any liability arising from such notices are less than probable. Accordingly, no provision is made in these financial statements as of March 31, 2018.

*Fuel Surcharge Adjustments*

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

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

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

F-71

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(in millions, except share and per share data)**

**39. Contingencies (continued)**

*Direct taxes related matters*

The Company is contesting various disallowances by the Indian Income Tax authorities. The associated tax impact is Rs.1,727. The Company believes that the chances of an unfavorable outcome in each of such disallowances are less than probable and, accordingly, no provision is made in these financial statements as of March 31, 2018.

During the years ended March 31, 2014, 2015 and 2016, Industrias Quimicas Falcon de Mexico, S.A. de CV, a wholly-owned subsidiary of the Company in Mexico, received a notice from Mexico's Tax Administration Service, *Servicio de Administracion Tributaria* ("SAT"), with respect to disallowance on account of transfer pricing adjustments pertaining to the calendar years ended December 31, 2006, December 31, 2007 and December 31, 2008. The associated tax impact is Rs.703 (MXN 196.9). The Company filed administrative appeals with the SAT by challenging these disallowances and, during February and March 2017, the Company received orders of the SAT confirming these disallowances by dismissing its administrative appeals. The Company disagrees with the SAT's disallowances and filed an appeal with the Tribunal Federal de Justicia Administrativa (Federal Tax and Administrative Court of Mexico) in March and April 2017.

The Company believes that possibility of any liability that may arise on account of this litigation is not probable. Accordingly, no provision has been made in these consolidated financial statements as of March 31, 2018.

*Others*

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



**40. Nature of Expense**

The following table shows supplemental information related to certain “nature of expense” items for the years ended March 31, 2018, 2017 and 2016:

|  | For the Year Ended March 31, |            |            |
|--|------------------------------|------------|------------|
|  | 2018                         | 2017       | 2016       |
| Employee benefits                            |                              |            |            |
| Cost of revenues                             | Rs. 10,434                   | Rs. 10,515 | Rs. 9,574  |
| Selling, general and administrative expenses | 17,004                       | 15,838     | 16,641     |
| Research and development expenses            | 4,711                        | 4,716      | 4,959      |
|  | Rs. 32,149                   | Rs. 31,069 | Rs. 31,174 |

|  | For the Year Ended March 31, |            |            |
|--|------------------------------|------------|------------|
|  | 2018                         | 2017       | 2016       |
| Depreciation and amortization                |                              |            |            |
| Cost of revenues                             | Rs. 6,595                    | Rs. 6,117  | Rs. 5,241  |
| Selling, general and administrative expenses | 3,883                        | 3,935      | 3,933      |
| Research and development expenses            | 1,232                        | 1,225      | 1,076      |
|  | Rs. 11,710                   | Rs. 11,277 | Rs. 10,250 |

In addition, for details relating to cost of material consumed refer to Note 11 of these consolidated financial statements.

**41. Change in the functional currency of a foreign operation**

Until July 31, 2016, the functional currency of the Swiss Subsidiary, was determined to be the Indian rupee. During the three months ended September 30, 2016, the Swiss Subsidiary borrowed U.S.\$350 from certain institutional lenders to acquire eight ANDAs in the United States (refer to Note 33 of these consolidated financial statements for further details). The Company believes that the aforesaid transactions have had significant impact on the primary economic environment of the Swiss Subsidiary and, accordingly, the Swiss Subsidiary’s operating, investing and financing activities will have a greater reliance on the United States dollar.

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

**42. Subsequent events**

None

F-72

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in millions, except share and per share data)

**43. Organizational structure**

Dr. Reddy's Laboratories Limited is the parent company. Tabulated below is the list of subsidiaries and joint ventures as of March 31, 2018:

| Name of the subsidiary/joint venture                             | Country of Incorporation | Percentage of Direct/Indirect Ownership Interest |                   |
|--|--------------------------|--|-------------------|
| Aurigene Discovery Technologies (Malaysia) Sdn. Bhd.             | Malaysia                 | 100  | % <sup>(3)</sup>  |
| Aurigene Discovery Technologies Inc.                             | U.S.A.                   | 100  | % <sup>(3)</sup>  |
| Aurigene Discovery Technologies Limited                          | India                    | 100  | %                 |
| beta Institut gemeinnützige GmbH                                 | Germany                  | 100  | % <sup>(8)</sup>  |
| betapharm Arzneimittel GmbH                                      | Germany                  | 100  | % <sup>(8)</sup>  |
| Cheminor Investments Limited                                     | India                    | 100  | %                 |
| Cheminor Employees Welfare Trust                                 | India                    | Refer to footnote 16                             |                   |
| Chirotech Technology Limited                                     | United Kingdom           | 100  | % <sup>(5)</sup>  |
| Dr. Reddy's Research Foundation                                  | India                    | Refer to footnote 16                             |                   |
| Dr. Reddy's Farmaceutica Do Brasil Ltda.                         | Brazil                   | 100  | %                 |
| Dr. Reddy's Laboratories (EU) Limited                            | United Kingdom           | 100  | % <sup>(10)</sup> |
| Dr. Reddy's Laboratories (Proprietary) Limited                   | South Africa             | 100  | % <sup>(10)</sup> |
| Dr. Reddy's Laboratories (UK) Limited                            | United Kingdom           | 100  | % <sup>(5)</sup>  |
| Dr. Reddy's Laboratories Canada, Inc.                            | Canada                   | 100  | % <sup>(10)</sup> |
| Dr. Reddy's Laboratories Chile SPA. (from June 16, 2017)         | Chile                    | 100  | % <sup>(10)</sup> |
| Dr. Reddy's Laboratories Inc.                                    | U.S.A.                   | 100  | % <sup>(10)</sup> |
| Dr. Reddy's Laboratories International SA                        | Switzerland              | 100  | % <sup>(10)</sup> |
| Dr. Reddy's Laboratories Japan KK                                | Japan                    | 100  | % <sup>(10)</sup> |
| Dr. Reddy's Laboratories Kazakhstan LLP                          | Kazakhstan               | 100  | % <sup>(10)</sup> |
| Dr. Reddy's Laboratories Louisiana LLC                           | U.S.A.                   | 100  | % <sup>(6)</sup>  |
| Dr. Reddy's Laboratories Malaysia Sdn. Bhd. (from July 10, 2017) | Malaysia                 | 100  | % <sup>(10)</sup> |
| Dr. Reddy's Laboratories New York, Inc.                          | U.S.A.                   | 100  | % <sup>(10)</sup> |
| Dr. Reddy's Laboratories Romania S.R.L.                          | Romania                  | 100  | % <sup>(10)</sup> |
| Dr. Reddy's Laboratories SA                                      | Switzerland              | 100  | %                 |
| Dr. Reddy's Laboratories Taiwan Limited (from February 23, 2018) | Taiwan                   | 100  | % <sup>(10)</sup> |
| Dr. Reddy's Laboratories Tennessee, LLC                          | U.S.A.                   | 100  | % <sup>(6)</sup>  |
| Dr. Reddy's Laboratories, LLC                                    | Ukraine                  | 100  | % <sup>(10)</sup> |

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|   |             |       |                       |
|---|-------------|-------|-----------------------|
| Dr. Reddy's New Zealand Limited.                                      | New Zealand | 100   | % <sup>(10)</sup>     |
| Dr. Reddy's Singapore PTE Limited                                     | Singapore   | 100   | % <sup>(10)</sup>     |
| Dr. Reddy's Srl   | Italy       | 100   | % <sup>(11)</sup>     |
| Dr. Reddy's Bio-Sciences Limited                                      | India       | 100   | %                     |
| Dr. Reddy's Laboratories (Australia) Pty. Limited                     | Australia   | 100   | % <sup>(10)</sup>     |
| Dr. Reddy's Laboratories SAS  | Colombia    | 100   | % <sup>(10)</sup>     |
| Dr. Reddy's Research and Development B.V. (formerly Octoplus B.V.)    | Netherlands | 100   | % <sup>(12)</sup>     |
| Dr. Reddy's Venezuela, C.A.   | Venezuela   | 100   | % <sup>(10)</sup>     |
| Dr. Reddy's (WUXI) Pharmaceutical Company Limited (from June 2, 2017) | China       | 100   | % <sup>(10)</sup>     |
| DRANU LLC   | U.S.A.      | 50    | % <sup>(13)</sup>     |
| DRES Energy Private Limited   | India       | 26    | % <sup>(14)</sup>     |
| DRL Impex Limited   | India       | 100   | % <sup>(15)</sup>     |
| DRSS Solar Power Private Limited (liquidated on November 1, 2017)     | India       | 26    | % <sup>(14) (2)</sup> |
| Eurobridge Consulting B.V.  | Netherlands | 100   | % <sup>(1)</sup>      |
| Idea2Enterprises (India) Pvt. Limited                                 | India       | 100   | %                     |
| Imperial Credit Private Limited                                       | India       | 100   | %                     |
| Industrias Quimicas Falcon de Mexico, S.A. de CV                      | Mexico      | 100   | %                     |
| Kunshan Rotam Reddy Pharmaceutical Co. Limited                        | China       | 51.33 | % <sup>(4)</sup>      |
| Lacock Holdings Limited   | Cyprus      | 100   | % <sup>(10)</sup>     |
| OOO Dr. Reddy's Laboratories Limited                                  | Russia      | 100   | % <sup>(10)</sup>     |

F-73

**DR. REDDY'S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in millions, except share and per share data)

**43. Organizational structure (continued)**

| Name of the subsidiary   | Country of Incorporation | Percentage of Direct/Indirect Ownership Interest |       |
|--|--------------------------|--|-------|
| OOO DRS LLC  | Russia                   | 100  | %(9)  |
| Promius Pharma LLC   | U.S.A.                   | 100  | %(6)  |
| Reddy Antilles N.V.  | Netherlands              | 100  | %     |
| Reddy Holding GmbH   | Germany                  | 100  | %(10) |
| Reddy Netherlands B.V.   | Netherlands              | 100  | %(10) |
| Reddy Pharma Iberia SA   | Spain                    | 100  | %(10) |
| Reddy Pharma Italia S.R.L.   | Italy                    | 100  | %(7)  |
| Reddy Pharma SAS   | France                   | 100  | %(10) |
| Regkinetics Services Limited (formerly Dr. Reddy's Pharma SEZ Limited) | India                    | 100  | %     |

(1) Indirectly owned through Dr. Reddy's Research and development B.V. (from March 29, 2018), formerly a subsidiary of Reddy Antilles N.V.

(2) Entities liquidated during the year.

(3) Indirectly owned through Aurigene Discovery Technologies Limited.

(4) Kunshan Rotam Reddy Pharmaceutical Co. Limited is a subsidiary, as the Company holds a 51.33% stake. However, the Company accounts for this investment by the equity method and does not consolidate it in the Company's 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 S.R.L.
- (12) Indirectly owned through Reddy Netherlands B.V.
- (13) DRANU LLC is consolidated in accordance with guidance available in IFRS 10.
- (14) Accounted in accordance with IFRS 11 'Joint Arrangements'.
- (15) Indirectly owned through Idea2Enterprises (India) Pvt. Limited.
- (16) The Company does not have any equity interests in this entity, but has significant influence or control over it.

## ITEM 19. EXHIBITS

| Exhibit Number | Description of Exhibits   | Footnotes |
|----------------|---|-----------|
| 1.1.           | <u>Memorandum and Articles of Association of the Registrant dated February 4, 1984.</u>   | (1)(3)(5) |
| 1.2.           | <u>Certificate of Incorporation of the Registrant dated February 24, 1984.</u>  | (1)(3)    |
| 1.3.           | <u>Amended Certificate of Incorporation of the Registrant dated December 6, 1985.</u>   | (1)(3)    |
| 1.4.           | <u>Amendment to Memorandum and Articles of Association of the Registrant dated June 12, 2009 (regarding an increase in our authorized share capital pursuant to the amalgamation of Perlecan Pharma Private Limited into Dr. Reddy's Laboratories Limited, its parent company).</u>   | (6)       |
| 1.5.           | <u>Amendment to Memorandum and Articles of Association of the Registrant dated July 19, 2010 Order of the Hon'bl High Court of Andhra Pradesh, India dated July 19, 2010 (regarding Amendment to Memorandum and Articles of Association of the Registrant and capitalization or utilization of undistributed profit or retained earnings or security premium account or any other reserve or fund in connection with our bonus debentures).</u> | (8)       |
| 1.6.           | <u>Amended and Restated Articles of Association of the Registrant dated September 17, 2015.</u>   | (9)       |
| 2.1.           | Form of Deposit Agreement, including the form of American Depositary Receipt, among Registrant, Morgan Guaranty Trust Company as Depositary, and holders from time to time of American Depositary Receipts Issued there under, including the form of American Depositary. Order of the Hon'bl High Court of Andhra Pradesh, India dated July 19, 2010 (regarding  | (1)       |
| 2.2.           | <u>capitalization or utilization of undistributed profit or retained earnings or security premium account or any other reserve or fund in connection with our bonus debentures).</u>  | (8)       |
| 2.3.           | <u>Scheme of Arrangement between the Registrant and its members for issue of bonus debentures, including Notice of Meeting of Members to approve same dated April 29, 2010 and Explanatory Statement dated April 29, 2010.</u>  | (8)       |
| 2.4.           | <u>Debenture Trust Deed dated March 16, 2011 between the Registrant and IDBI Trusteeship Services Limited (regarding trustee services for our bonus debentures).</u>  | (8)       |
| 2.5.           | <u>Liquidity Facility Services Agreement dated April 2, 2011 between the Registrant and DSP Merrill Lynch Capital Limited (regarding liquidity facility for our bonus debentures).</u>  | (8)       |
| 2.6.           | <u>Asset Purchase Agreement between Teva Pharmaceutical Industries Ltd. and Dr. Reddy's Laboratories S.A. dated as of June 10, 2016. Confidential portions of this exhibit have been omitted pursuant to a request for confidential treatment and filed separately with the SEC.</u>  | (10)      |
| 2.7.           | <u>Asset Purchase Agreement between Watson Laboratories, Inc. and Dr. Reddy's Laboratories S.A. dated as of June 10, 2016. Confidential portions of this exhibit have been omitted pursuant to a request for confidential treatment and filed separately with the SEC.</u>  | (10)      |
| 4.1.           | Agreement by and between Dr. Reddy's Laboratories Limited and Dr. Reddy's Research Foundation regarding the undertaking of research dated February 27, 1997.  | (1)       |
| 4.2.           | <u>Dr. Reddy's Laboratories Limited Employee Stock Option Scheme, 2002.</u>   | (2)       |
| 4.3.           | <u>Sale and Purchase Agreement Regarding the Entire Share Capital of Beta Holding GmbH dated February 15th/16th 2006.</u>   | (4)       |
| 4.4.           | <u>Dr. Reddy's Employees ADR Stock Option Scheme, 2007.</u>   | (7)       |
| 8.             | <u>List of subsidiaries, associates and joint ventures of the Registrant.</u>   |           |
| 15.1           | <u>Consent of Independent Registered Public Accounting Firm.</u>  |           |
| 15.2           | <u>Copy of letter addressed to the SEC by KPMG in response to our disclosures in Item 16 F.</u>   |           |
| 12.1           |   |           |

Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

12.2 Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

13.1 Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

13.2 Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

- (1) Previously filed on March 26, 2001 with the SEC along with Form F-1.
- (2) Previously filed on October 31, 2002 with the SEC along with Form S-8.
- (3) Previously filed with the Company's Form 20-F for the fiscal year ended March 31, 2003.
- (4) Previously filed with the Company's Form 20-F/A for the fiscal year ended March 31, 2006 pursuant to a request for confidential treatment.
- (5) Previously filed with the Company's Form 20-F for the fiscal year ended March 31, 2006.
- (6) Previously filed with the Company's Form 20-F for the fiscal year ended March 31, 2010.
- (7) Previously filed on March 5, 2007 with the SEC along with Form S-8.
- (8) Previously filed with the Company's Form 20-F for the fiscal year ended March 31, 2011.
- (9) Incorporated by reference to Exhibit 99.1 to the Company's Form 6-K dated September 25, 2015.
- (10) Previously filed with the Company's Form 20-F for the fiscal year ended March 31, 2017.



SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

DR. REDDY'S LABORATORIES LIMITED

By: /s/G.V. Prasad  
G.V. Prasad  
Co-Chairman and Chief Executive Officer

By: /s/Saumen Chakraborty  
Saumen Chakraborty  
President and Chief Financial Officer

Hyderabad, India

June 15, 2018

137