DR REDDYS LABORATORIES LTD
Form 424B3
November 17, 2006

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CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Offering Price Per Security	Aggregate Offering Price	Amount of Registration Fee [(b)]
Equity shares of Rs.5 par value, as evidenced by American Depositary Receipts(a)	14,300,000	$ 16.00	$ 228,800,000	$ 24,481.60

(a) American Depositary Shares evidenced by American Depositary Receipts issuable on deposit of the equity shares registered hereby will be registered under a separate registration statement on Form F-6. Each American Depositary Share will represent one equity share.

(b) The filing fee is calculated in accordance with Rule 456(b) and 457(r) of the Securities Act.

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Filed Pursuant to Rule 424(b)(3)
Registration No. 333-138608

PROSPECTUS

SUPPLEMENT TO PROSPECTUS DATED NOVEMBER 13, 2006

12,500,000 American Depositary Shares

Dr. Reddy s Laboratories Limited
(incorporated under the laws of India)
Representing 12,500,000 Equity Shares

We are offering 12,500,000 equity shares in the form of American Depositary Shares or ADSs. Each ADS offered represents one equity share of Dr. Reddy s Laboratories Limited.

Our outstanding ADSs are traded on the New York Stock Exchange under the symbol RDY. The last reported sales price of our ADSs on the New York Stock Exchange on November 16, 2006 was U.S.$16.45 per ADS. Our equity shares are traded in India on the National Stock Exchange of India Limited, or the NSE, and the Bombay Stock Exchange Limited, or the BSE. The closing price for our equity shares on the NSE and the BSE on November 16, 2006 was Rs.773.80 (U.S.$17.26) and Rs.774.50 (U.S.$17.28), respectively, translated at the noon buying rate of Rs.44.82 per U.S.$1.00 on November 16, 2006.

Investing in our ADSs involves risks. See Risk Factors beginning on page S-18 to read about factors you should consider before buying our ADSs.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Per ADS		Total	
Public offering price	U.S.$	16.00	U.S.$	200,000,000
Underwriting discounts and commissions	U.S.$	0.28	U.S.$	3,500,000
Proceeds to us before expenses	U.S.$	15.72	U.S.$	196,500,000

We have granted to the underwriters an option to purchase up to an additional 1,800,000 ADSs to cover over-allotments at the public offering price less underwriting discounts and commissions.

The underwriters expect to deliver the ADSs to purchasers on November 22, 2006.

Joint Book-runners
(in alphabetical order)

Citigroup **Merrill Lynch & Co.**

The date of this prospectus supplement is November 16, 2006.

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You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. If information in this prospectus supplement is inconsistent with the accompanying prospectus, you should rely on the prospectus supplement. We have not, and the underwriters have not, authorized anyone to provide you with different information. We are not, and the underwriters are not, making an offer of these securities in any state where the offer or sale is not permitted. You should not assume that the information provided in this prospectus supplement, the accompanying prospectus or the documents incorporated by reference in this prospectus supplement and in the accompanying prospectus is accurate as of any date other than their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

In this document, all references to Indian rupees, rupees and Rs. are to the legal currency of India and all references to U.S. dollars, dollars and U.S.$ are to the legal currency of the United States.

Except as otherwise stated in this prospectus, all translations from Indian rupees to U.S. dollars, for the year ended March 31, 2006, three months ended June 30, 2006 and three and six months ended September 30, 2006, contained in this prospectus supplement are based on the noon buying rate in the City of New York on March 31, 2006, June 30, 2006 and September 30, 2006, respectively, for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York. The noon buying rate on March 31, 2006, June 30, 2006 and September 30, 2006 was Rs.44.48 per U.S.$1.00, Rs.45.87 per U.S.$1.00 and Rs.45.95 per U.S.$1.00, respectively. The exchange rates used in this prospectus supplement for translations of Indian rupee amounts into U.S. dollars for convenience purposes differ from the actual rates used in the preparation of our consolidated financial statements, and U.S. dollar amounts used in this prospectus supplement differ from the actual U.S. dollar amounts that were translated into Indian rupees in the financial statements.

Our financial statements are presented in Indian rupees and are prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP. In this prospectus supplement, any discrepancies in any table between totals and the sums of the amounts listed are a result of rounding. In this prospectus supplement, references to a particular fiscal year are to the twelve months ended March 31 of that year.

WHERE YOU CAN FIND MORE INFORMATION

We file annual and other reports with the Securities and Exchange Commission, or SEC. Our SEC filings are available to the public from the SEC s web site at http://www.sec.gov. You may also read and copy any document we file at the SEC s public reference room in Washington, D.C. located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may also obtain copies of any document we file at prescribed rates by writing to the Public Reference Section of the Securities and Exchange Commission at that address. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights information contained elsewhere in this prospectus supplement and does not contain all of the information that you should consider before investing in our ADSs. You should read this entire prospectus supplement and accompanying prospectus, including Risk Factors and the consolidated financial statements and related notes, before making an investment decision. Unless otherwise specifically stated, the information in this prospectus supplement does not take into account the possible purchase of additional ADSs by the underwriters pursuant to the underwriters over-allotment option. This prospectus supplement and accompanying prospectus includes forward-looking statements that involve risks and uncertainties. See Forward-Looking Statements.

Overview

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

Our total revenues for the year ended March 31, 2006 were Rs.24,267.0 million (U.S.$545.6 million). We derived 34.1% of these revenues from sales in India, 16.4% from the United States and Canada (North America), 14.7% from Russia and other countries of the former Soviet Union, 17.8% from Europe and 17.0% from other countries. Our net income for the year ended March 31, 2006 was Rs.1,628.9 million (U.S.$36.6 million).

Our total revenues for the three months ended June 30, 2006 were Rs.14,049.4 million (U.S.$306.3 million). For the three months ended June 30, 2006, we received 34.6% of our revenues from North America (United States and Canada), 17.0% of our revenues from India, 10.4% of our revenues from Russia and other former Soviet Union countries, 23.1% of our revenues from Europe and 14.9% of our revenues from other countries. Our net income for the three months ended June 30, 2006 was Rs.1,397.6 million (U.S.$30.5 million).

Our total revenues for the three months ended June 30, 2005 were Rs.5,591.4 million (U.S.$121.9 million). In the three months ended June 30, 2005, we received 11.8% of our revenues from the United States and Canada, 37.3% from India, 18.0% from Russia and other former Soviet Union countries, 18.5% from Europe and 14.5% from other countries. Our net income for three months ended June 30, 2005 was Rs.347.3 million (U.S.$8 million).

Our Strategy

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

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

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

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

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

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

Our Competitive Strengths

We believe that our principal competitive strengths include the following:

Global presence. We have established sales and marketing organizations in key pharmaceutical markets, including the United States, India, Germany, Russia, the United Kingdom, South Africa, Brazil and China, with a global field force of more than 2,000 personnel. We operate 13 manufacturing facilities in three countries. We believe this global presence is one of our most important strengths in part because a substantial barrier to growth for generics companies is establishing the requisite sales and marketing infrastructure in new markets. Our products are sold in over 40 countries, with our key markets located in the United States, India, Russia, and Europe and an increasing presence in the other key markets. We believe this geographical diversification provides us with an advantage over other leading generics companies and helps to reduce our dependence on any one market or region as well as diminishes the impact of downturns in a particular market or region.

Research and Development Expertise. Our proven capabilities and cost advantage in research and development allow us to bring to market a broad array of pharmaceutical products. With over 1,300 research and development staff, we focus on developing active pharmaceutical ingredients and intermediates, or APIs, finished dosages, biogenerics, specialty products and new chemical entities, or NCEs. Our strong process chemistry skills, formulation development capabilities, regulatory and intellectual property expertise are well integrated creating a strong global product development platform. We are leveraging our strengths to create a strong product pipeline, including products with differentiation. We are also leveraging our strengths in discovery research to build a pipeline of NCEs addressing unmet medical needs in the areas of cardiovascular and metabolic disorders.

Vertically integrated operations. The vertical integration of our operations enables us to sustain price competitiveness in our major markets. We are able to keep our manufacturing costs lower by taking advantage of our in-house production of active pharmaceutical ingredients, the key building blocks for producing finished dosages, which supply a majority of our production requirements. In addition, most of our manufacturing facilities are located in India, providing access to cost efficient manufacturing operations.

Broad portfolio and large pipeline. A broad and robust pipeline is key to long-term profitable growth. We have made and continue to make significant investments in building a global pipeline to address the market opportunities in both the global generics industry as well as our innovation driven drug discovery and specialty pharmaceuticals segments. As of September 30, 2006, we had 83 abbreviated new drug applications, or ANDAs filed with the United States Food and Drug Administration, or U.S. FDA, of which 27 had been approved and 56 were pending approval, which according to International Medical Statistics, or IMS, Moving Annual Total, or MAT, data dated December 2005 relate to brand name drugs having aggregate sales in the United States of approximately U.S.$61 billion. Of the 56 ANDAs pending approval, 33 have been filed with a Paragraph IV certification. As of September 30, 2006, we had a pipeline of 86 drug master files, or DMFs, in the United States and 42 DMFs in Europe. As of September 30, 2006, we had 9 NCEs in various stages of development including 5 in clinical development. As of September 30, 2006, we also had 10 biogenerics products in various stages of development.

Management strength and vision. We have assembled a strong and experienced management team with global business and technical expertise. Management s experience and vision will enable us to become a discovery-led global pharmaceutical company.

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Recent Developments

Our revenues for the three months ended September 30, 2006 were Rs.20,038.5 million (U.S.$436.1 million). Net income for the three months ended September 30, 2006 was Rs.2,797.7 million (U.S.$60.9 million). Our revenues for six months ended September 30, 2006 were Rs.31,088.0 million (U.S.$741.8 million). Net income for the six months ended September 30, 2006 was Rs.4,195.3 million (U.S.$91.3 million).

Below is a summary of our unaudited financial and operational performance for the three months ended September 30, 2006 and September 30, 2005.

Results for three months ended September 30, 2006

	Three Months Ended September 30, 2006			Three Months Ended September 30, 2005			
	(Rs.)	Convenience Translation Into U.S.$	%(1)	(Rs.)	Convenience Translation Into U.S.$	%(1)	Growth %(2)
	In millions (except per share data)			In millions (except per share data)			
Total revenues	20,038.5	436.1	100.0	5,803.7	126.3	100.0	245.3
Cost of revenues	11,750.3	255.7	58.6	2,806.9	61.1	48.4	318.6
Gross profit	8,288.2	180.4	41.4	2,996.8	65.2	51.6	176.6
Selling, general and administrative expenses	3,667.5	79.8	18.3	1,766.7	38.4	30.4	107.6
Research and development expenses, net	401.5	8.7	2.0	443.5	9.7	7.6	(9.5)
Amortization expenses	402.4	8.8	2.0	76.4	1.7	1.3	426.7
Other operating (income)/expenses net	(1.8)	0.0	0.0	23.9	0.5	0.4	
Operating income before foreign exchange loss/(gain)	3,818.6	83.1	19.1	686.3	14.9	11.8	456.4
Foreign exchange loss/ (gain)	(54.8)	(1.2)	(0.3)	13.0	0.3	0.2	35.4
Operating income	3,873.4	84.3	19.3	673.3	14.7	11.6	475.3
Equity in loss of affiliates	21.4	0.5	0.1	15.8	0.3	0.3	
Other expenses/(income) net	321.2	7.0	1.6	(191.2)	(4.2)	(3.3)	
Income before income taxes and minority interest	3,530.8	76.8	17.6	848.7	18.5	14.6	316.0
Income tax (benefit)/expense	737.1	16.0	3.7	(39.5)	(0.9)	(0.7)	
Minority interest	4.0	0.1	0.0	1.4	0.0	0.0	
Net income	2,797.7	60.9	14.0	889.6	19.4	15.3	214.5
	18.23			5.81			

Basic earnings per share (Rs.)		
Diluted earnings per share (Rs.)	18.15	5.81

(1) As a percentage of our total revenues.

(2) Growth in three months ended September 30, 2006 as compared to three months ended September 30, 2005.

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Revenue by segment

	Three Months Ended September 30, 2006			Three Months Ended September 30, 2005			
	Convenience Translation Into			Convenience Translation Into			
	(Rs.)	U.S.$	%(1)	(Rs.)	U.S.$	%(1)	Growth %(2)
	In millions			In millions			
Active pharmaceutical ingredients and intermediates	2,905.9	63.2	14.5	2,130.3	46.4	36.7	36.4
India	501.6	10.9	17.3(3)	579.0	12.6	27.2(3)	(13.4)
Outside India	2,404.3	52.3	82.7(3)	1,551.3	33.8	72.8(3)	55.0
Formulations	3,055.7	66.5	15.3	2,576.0	56.1	44.4	18.6
India	1,743.2	37.9	57.0(4)	1,507.5	32.8	58.5(4)	15.6
Outside India	1,312.5	28.6	43.0(4)	1,068.5	23.3	41.5(4)	22.8
Generics	12,112.5	263.6	60.4	772.8	16.8	13.3	1,467.2
Critical care and biotechnology	226.9	4.9	1.1	203.0	4.4	3.5	11.8
Custom pharmaceutical services	1,668.1	36.3	8.3	121.6	2.6	2.1	1,271.8
Others	69.4	1.5	0.4	0.0	0.0	0.0	
Total	20,038.5	436.1	100.0	5,803.7	126.3	100.0	245.3

(1) As a percentage of our total revenues.

(2) Growth in three months ended September 30, 2006 as compared to three months ended September 30, 2005.

(3) As a percentage of our revenues from active pharmaceutical ingredients and intermediates segment.

(4) As a percentage of our revenues from formulations segment.

Revenue by geography

	Three Months Ended September 30, 2006		Three Months Ended September 30, 2005	
	Convenience Translation Into		Convenience Translation Into	

	(Rs.)	U.S.$	%(1)	(Rs.)	U.S.$	%(1)	Growth %(2)
	In millions			In millions			
India	2,429.7	52.9	12.1	2,216.1	48.2	38.2	9.6
North America	10,195.6	221.9	50.9	878.8	19.1	15.1	1,060.2
Russia and other countries of the former Soviet Union	1,023.9	22.3	5.1	890.7	19.4	15.4	15.0
Europe	3,848.0	83.7	19.2	873.1	19.0	15.0	340.7
Others	2,541.3	55.3	12.7	945.0	20.6	16.3	168.9
Total	20,038.5	436.1	100.0	5,803.7	126.3	100.0	245.3

(1) As a percentage of our total revenues.

(2) Growth in three months ended September 30, 2006 as compared to three months ended September 30, 2005.

Revenues were Rs.20,038.5 million for the three months ended September 30, 2006 as compared to Rs.5,803.7 million for the three months ended September 30, 2005, representing an increase of 245.3%.

Revenues from markets outside India increased by 390.8% to Rs.17,608.8 million for the three months ended September 30, 2006 as compared to the three months ended September 30, 2005.

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Markets outside India contributed 87.9% to total revenues for the three months ended September 30, 2006 as compared to 61.8% for the three months ended September 30, 2005.

Revenues from authorized generic products contributed 39.0% whereas revenues from acquisition of beta Holding GmbH, or betapharm and Industrias Quimicas Falcon de Mexico, S.A. de C.V., or Falcon businesses and products acquired in Spain contributed 20.0% of the total revenues for the three months ended September 30, 2006.

Revenues excluding contribution from authorized generic products, business and product acquisitions increased by 41.1% to Rs.8,229.9 million for the three months ended September 30, 2006 from Rs.5,803.7 million for the three months ended September 30, 2005.

Revenues in our active pharmaceutical ingredients and intermediates business increased by 36.4% to Rs.2,905.9 million for the three months ended September 30, 2006 from Rs.2,130.3 million for the three months ended September 30, 2005 primarily driven by sales of sertraline.

Revenues in our branded formulations business increased by 18.6% to Rs.3,055.7 million for the three months ended September 30, 2006 from Rs.2,576.0 million for the three months ended September 30, 2005 driven by growth across key countries as mentioned below.

Revenues outside India increased by 22.8% for the three months ended September 30, 2006 to Rs.1,312.5 million as compared to Rs.1,068.5 million for the three months ended September 30, 2005, driven by growth in Russia and other countries of the former Soviet Union.

Revenues from India increased by 15.6% for the three months ended September 30, 2006 to Rs.1,743.2 million as compared to Rs.1,507.5 million for the three months ended September 30, 2005, driven by growth in key brands. As per ORG IMS August MAT figures, our volume growth was 17% as compared to industry average volume growth of 15% and our value growth tracked industry growth.

Revenues in our generics segment were Rs.12,112.5 million for the three months ended September 30, 2006 as compared to Rs.772.8 million for the three months ended September 30, 2005.

Revenues in our North American generics business increased to Rs.9,082.3 million for the three months ended September 30, 2006 as compared to Rs.299.4 million for the three months ended September 30, 2005. This growth was primarily driven by:

Combined revenues of Rs.7,808.0 million from sales of simvastatin and finasteride. Both of these products were launched as authorized generic versions of Merck s Zocor® and Proscar®, respectively, in June 2006. Sales of these products contributed 39.0% to total revenues for the three months ended September 30, 2006.

Excluding these authorized generics, growth in North America was primarily driven by sales of fexofenadine, which contributed revenues of Rs.806.7 million for the three months ended September 30, 2006.

Revenues in our European generics business were Rs.3,026.2 million for the three months ended September 30, 2006 as compared to Rs.473.4 million for the three months ended September 30, 2005.

Revenues from the acquisition of betapharm in Germany were Rs.2,554.5 million for the three months ended September 30, 2006 as compared to revenues of Rs.1,997.6 million for the three months ended June 30, 2006. The gross profit margin at betapharm for the three months ended September 30, 2006 was 57.9% as compared to 52.5% for the three months ended June 30, 2006. betapharm was acquired by us on March 3, 2006 and accordingly, the corresponding previous quarter ended September 30, 2005 did not have any revenues from betapharm.

Excluding contributions from business and products acquisitions in betapharm and Spain, revenues in the Europe declined to Rs.454.8 million for the three months ended September 30, 2006 from Rs.473.4 million for the three months ended September 30, 2005 primarily on account of a decline in

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price of omeprazole and amlopidine maleate in the United Kingdom. Revenues from products acquired in Spain contributed Rs.16.9 million for the three months ended September 30, 2006.

Revenues from our custom pharmaceutical services business increased to Rs.1,668.1 million for the three months ended September 30, 2006 from Rs.121.6 million for the three months ended September 30, 2005.

Revenues from the acquired Falcon business in Mexico were Rs.1,429.2 million for the three months ended September 30, 2006 as compared to Rs.1,241.0 million for the three months ended June 30, 2006. Falcon was acquired by us on December 30, 2005 and accordingly, the corresponding previous quarter ended September 30, 2005 did not have any revenues from Falcon.

Excluding revenues from the acquired Falcon business, revenues increased from Rs.121.6 million for the three months ended September 30, 2005 to Rs.238.9 million for the three months ended September 30, 2006, driven by growth in our customer base and their product portfolio.

Active Pharmaceutical Ingredients and Intermediates (APIs)

API geographic mix

	Three Months Ended September 30, 2006			Three Months Ended September 30, 2005			
	(Rs.)	Convenience Translation Into U.S.$	%(1)	(Rs.)	Convenience Translation Into U.S.$	%(1)	Growth %(2)
	In millions			In millions			
North America	437.5	9.5	15.0	489.9	10.7	23.0	(10.7)
India	501.6	10.9	17.3	578.9	12.6	27.2	(13.4)
Europe	535.6	11.7	18.4	337.6	7.3	15.8	58.6
Others	1,431.2	31.1	49.3	723.9	15.8	34.0	97.7
Total	2,905.9	63.2	100.0	2,130.3	46.4	100.0	36.4

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

(2) Growth in three months ended September 30, 2006 as compared to three months ended September 30, 2005.

Revenues were Rs.2,905.9 million for the three months ended September 30, 2006 as compared to Rs.2,130.3 million for the three months ended September 30, 2005, representing an increase of 36.4%.

Revenues outside India were Rs.2,404.3 million for the three months ended September 30, 2006 as compared to Rs.1,551.4 million for the three months ended September 30, 2005, representing an increase of 55.0%. These revenues contributed 82.7% of the total segment revenues for the three months ended September 30, 2006 as compared to 72.8% for the three months ended September 30, 2005.

Revenues in Europe grew by 58.6% to Rs.535.6 million for the three months ended September 30, 2006 from Rs.337.6 million for the three months ended September 30, 2005 primarily led by growth of sales of our key products ramipril and sertraline.

Revenues in the rest of the world markets increased by 97.7% to Rs.1,431.2 million for the three months ended September 30, 2006 from Rs.723.8 million for the three months ended September 30, 2005, primarily driven by growth in sales in Israel, Turkey and South Korea.

Revenues in North America decreased by 10.7% to Rs.437.5 million for the three months ended September 30, 2006 as compared to Rs.489.9 million for the three months ended September 30, 2005. This decline was primarily due to a decrease in revenues from sertraline and ibuprofen partially offset by an increase in sales of development products.

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Revenues in India were Rs.501.6 million for the three months ended September 30, 2006 as compared to Rs.578.9 million for the three months ended September 30, 2005, representing a decrease of 13.4%, primarily on account of a decline in sales volumes in key products.

We filed three Drug Master Files, or DMFs in the United States during the quarter, bringing our total DMF filings in the U.S. to 86. We also filed three DMFs in Canada.

Generics

Revenues in this segment were Rs.12,112.5 million for the three months ended September 30, 2006 as compared to Rs.772.8 million for the three months ended September 30, 2005.

North America contributed 75.0% and Europe contributed 25.0% to the segment revenues.

In North America, revenues increased to Rs.9,082.3 million for the three months ended September 30, 2006 from Rs.299.4 million for the three months ended September 30, 2005. Combined revenues of simvastatin and finasteride launched as generic versions of Zocor® and Proscar® respectively, for the three months ended September 30, 2006 were Rs.7,808.0 million. Fexofenadine, which we launched in April, 2006, contributed Rs.806.7 million in revenues for the three months ended September 30, 2006.

In Europe, revenues increased to Rs.3,026.2 million for the three months ended September 30, 2006 from Rs.473.4 million for the three months ended September 30, 2005.

Revenues from the acquired betapharm business in Germany were Rs.2,554.5 million for the three months ended September 30, 2006 as compared to Rs.1,997.6 million for the three months ended June 30, 2006. betapharm was acquired by us on March 3, 2006 and accordingly, the corresponding previous quarter ended September 30, 2005 did not have any revenues from betapharm.

Revenues from the United Kingdom (U.K.) declined to Rs.454.8 million for the three months ended September 30, 2006 from Rs.473.4 million for the three months ended September 30, 2005. This decline was primarily on account of a decline in prices of key products of amlopidine and omeprazole in the U.K. Revenues from acquired products in Spain contributed Rs.16.9 million for the three months ended September 30, 2006.

During the three months ended September 30, 2006, we filed eight ANDAs with the U.S. FDA, five of which were Paragraph IVs. As of September 30, 2006, we had a total of 56 ANDAs pending at the U.S. FDA.

Formulations

Revenue Outside India

Revenue by geography (outside India)

	Three Months Ended September 30, 2006 Convenience Translation	Three Months Ended September 30, 2005 Convenience Translation

Country	(Rs.)	Into U.S.$	%(1)	(Rs.)	Into U.S.$	%(1)	Growth %(2)
	In millions			In millions			
Russia and other countries of the former Soviet Union	984.8	21.4	75.0	846.3	18.4	79.2	29.4
Europe	99.9	2.2	7.6	51.0	1.1	4.8	95.9
Others	227.8	5.0	17.4	171.3	3.7	16.0	33.0
Total	1,312.5	28.6	100.0	1,068.6	23.3	100.0	22.8

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

(2) Growth in three months ended September 30, 2006 as compared to three months ended September 30, 2005.

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Revenues were Rs.1,312.5 million for the three months ended September 30, 2006, which represents an increase of 22.8% from the three months ended September 30, 2005. The growth was primarily driven by the sales in Russia, Uzbekistan, Romania and Venezuela.

Revenues in Russia increased by 18.0% to Rs.759.2 million for the three months ended September 30, 2006 as compared to Rs.643.7 million for the three months ended September 30, 2005. This growth was primarily driven by an increase in sales from key brands of Nise, Cetrine and Keterol. During the three months ended September 30, 2006, we launched four new products including two over-the-counter (OTC) products. We improved our ranking to eight in the retail prescription market from nine for the same period last year. (April June Pharmexpert).

Revenues in the markets of the former countries of the Soviet Union, or CIS increased by 11.4% to Rs.225.6 million for the three months ended September 30, 2006 as compared to Rs.202.6 million for the three months ended September 30, 2005. This growth was primarily driven by an increase in sales in Ukraine, Belarus and Uzbekistan.

Revenues outside India markets excluding Russia, other countries of the former Soviet Union and Europe increased by 33.0% to Rs.227.8 million for the three months ended September 30, 2006 from Rs.171.3 million for the three months ended September 30, 2005. The growth was primarily driven by an increase in sales in Venezuela, South Africa, Myanmar and Vietnam.

Revenues in Europe grew by 95.9% to Rs.99.9 million for the three months ended September 30, 2006 as compared to Rs.51.0 million for the three months ended September 30, 2005. This growth was mainly on account of a growth of sales in Romania and Albania.

Formulations India

Revenues were Rs. 1.743.2 million for the three months ended September 30, 2006, representing an increase of 15.6%, as compared to Rs.1,507.5 million for the three months ended September 30, 2006.

Growth was primarily driven by growth in our key brands of Omez, Nise and Reclimet.

We have launched 12 new products during the six months ended September 30, 2006. These products contributed Rs.62.9 million to revenues for the three months ended September 30, 2006.

New launches of Omez-D and Razo-D rank among the 10 most successful launches of 2006 as per August 2006 ORG IMS MAT.

As per August MAT ORG IMS:

We recorded volume growth of 17% as compared to industry volume growth of 15%.

We recorded value growth of 16%, in line with industry growth.

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Formulations India revenues by therapies

Therapeutic Segment[1]	Three Months Ended September 30, 2006 Convenience Translation Into (Rs.)	U.S.$	%[2]	Three Months Ended September 30, 2005 Convenience Translation Into (Rs.)	U.S.$	%[2]	Growth %[3]
	In millions			In millions			
Cardiovascular	294.0	6.4	16.8	276.9	6.0	18.4	6.2
Gastro-intestinal	347.4	7.6	19.9	281.0	6.1	18.6	23.6
Pain	289.2	6.3	16.6	224.5	4.9	14.9	28.9
Diabetic care	127.0	2.8	7.3	122.7	2.7	8.1	3.6
Paediatrics	189.5	4.1	10.9	154.1	3.4	10.2	23.1
Neutraceuticals	84.7	1.8	4.9	85.6	1.9	5.7	(1.0)
Dermatology	73.0	1.6	4.2	71.9	1.6	4.8	1.6
Anti-infectives	111.4	2.4	6.4	86.7	1.9	5.8	28.4
Dental	60.9	1.3	3.5	60.0	1.3	4.0	1.4
Urology	59.0	1.3	3.4	40.1	0.9	2.7	47.2
Women s health care	30.5	0.7	1.8	34.7	0.8	2.3	(11.9)
Surgery	33.0	0.7	1.9	30.9	0.7	2.0	6.6
Respiratory	42.8	0.9	2.4	38.4	0.8	2.5	11.3
Nephrology	0.8	0.0	0.0				
Total	1,743.2	37.9	100.0	1,507.5	32.8	100.0	15.7

(1) Due to revised therapeutic segments, revenues for the previous year have been regrouped.

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

(3) Growth in three months ended September 30, 2006 as compared to three months ended September 30, 2005.

Formulations India revenues by key brands

Brand	Three Months Ended September 30, 2006 Convenience translation into (Rs.)	U.S.$	%[1]	Three Months Ended September 30, 2005 Convenience translation into (Rs.)	U.S.$	%[1]	Growth %[2]
	In millions			In millions			

Nise	274.1	6.0	15.7%	227.6	4.9	15.1%	20.4%
Omez	223.9	4.9	12.8%	182.3	4.0	12.1%	22.8%
Stamlo	88.3	1.9	5.1%	83.3	1.8	5.5%	6.0%
Stamlo beta	66.2	1.4	3.8%	69.3	1.5	4.6%	(4.5)%
Razo	56.8	1.2	3.3%	34.7	0.8	2.3%	63.7%
Atocor	45.5	1.0	2.6%	43.2	0.9	2.9%	5.3%
Enam	42.6	0.9	2.4%	43.8	1.0	2.9%	(2.7)%
Clamp	42.5	0.9	2.4%	33.3	0.7	2.2%	27.6%
Reclimet	39.6	0.9	2.3%	32.1	0.7	2.1%	23.4%
Ketorol	32.7	0.7	1.9%	24.3	0.5	1.6%	34.6%
Others	831.0	18.1	47.7%	733.6	16.0	48.7%	13.3%
Total	1,743.2	37.9	100.0	1,507.5	32.8	100.0	15.7%

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

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(2) Growth in three months ended September 30, 2006 as compared to three months ended September 30, 2005.

Custom Pharmaceutical Services (CPS)

Revenues from CPS increased to Rs.1,668.1 million for the three months ended September 30, 2006 from Rs.121.6 million for the three months ended September 30, 2005.

Revenues from the acquired Falcon business in Mexico were Rs.1,429.2 million for the three months ended September 30, 2006 as compared to Rs.1,241.0 million for the three months ended June 30, 2006. Falcon was acquired by us on December 30, 2005 and accordingly, the corresponding previous quarter ended September 30, 2005 did not have any revenues from Falcon.

Excluding the contribution from the acquired Falcon business in Mexico, revenues increased from Rs.121.6 million for the three months ended September 30, 2005 to Rs.238.9 million for the three months ended September 30, 2006, driven by growth in our customer base and their product portfolio.

Critical Care and Biotechnology

Revenues in our critical care and biotechnology segment were Rs.226.9 million for the three months ended September 30, 2006, representing an increase of 11.8% as compared to the three months ended September 30, 2005.

Income statement highlights

Gross profits increased to Rs.8,288.2 million for the three months ended September 30, 2006 from Rs.2,996.8 million for the three months ended September 30, 2005. Gross profit margins on total revenues were 41.4% as compared to 51.6% for the three months ended September 30, 2005. Revenues from authorized generics contributed 39.0% to total revenues and earned gross margins which were significantly below our average gross margins.

Selling, general and administrative, or SG&A expenses increased by 107.6% from the three months ended September 30, 2005 to Rs.3,667.5 million for the three months ended September 30, 2006. This increase was primarily on account of SG&A relating to our acquired businesses, betapharm and Falcon.

Research and development expenses, net, was 2.0% of total revenues for the three months ended September 30, 2006 as compared to 7.6% for the three months ended September 30, 2005. Gross research and development expenses increased by 24.2% to Rs.743.5 million as compared to Rs.598.8 million for the three months ended September 30, 2005. Under the terms of our research and development partnership agreement with I-VEN Pharma Capital Limited, or I-VEN, we received U.S.$22.5 million in March 2005 to be applied to research and development costs in our generics segment, of which U.S.$5.0 million was recognized as a reduction in research and development expense for the three months ended September 30, 2006, as compared to U.S.3.6 million recognized for the three months ended September 30, 2005. Further, during the three months ended September 30, 2006, our research and development expenses in our drug discovery segment were lower on account of the reimbursement of expenses incurred by us on the development of NCEs assigned to Perlecan Pharma Private Limited, or Perlecan, in terms of our research and development arrangement entered into during the year ended March 31, 2006.

Amortization expense was Rs.402.4 million for the three months ended September 30, 2006 as compared to Rs.76.4 million for the three months ended September 30, 2005. This includes amortization expense of

Rs.323.9 million relating to intangibles in betapharm and Falcon.

Other expense/(income), net was Rs.321.2 million for the three months ended September 30, 2006 as compared to other expense/(income), net of (Rs.191.2) million for the three months ended September 30, 2005. This movement from a net income to a net expense position was primarily on account of net interest expense of Rs.369.2 million incurred for the three months ended September 30, 2006 as compared to net interest income of Rs.140.3 million for the three months ended September 30, 2005.

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The increase in interest expense during three months ended September 30, 2006 was due to the long term debt taken to fund the betapharm acquisition.

Net income for the three months ended September 30, 2006 was Rs.2,797.7 million (14.0% of total revenues) as compared to Rs.889.6 million (15.3% of total revenues) for the three months ended September 30, 2005. This translates to basic and diluted earnings per share of Rs.18.23 and Rs.18.15, respectively, for the three months ended September 30, 2006 as compared to Rs.5.81 and Rs.5.81, respectively, for the three months ended September 30, 2005.

During the three months ended September 30, 2006, we incurred capital expenditure (net) of Rs.1,012.0 million.

Below is a summary of our unaudited financial and operational performance for the six months ended September 30, 2006 and September 30, 2005.

Results for six months ended September 30, 2006

	Six Months Ended September 30, 2006			Six Months Ended September 30, 2005			
	(Rs.)	Convenience Translation Into U.S.$	%(1)	(Rs.)	Convenience Translation Into U.S.$	%(1)	Growth %(2)
	In millions (except per share data)			In millions (except per share data)			
Income Statement:							
Total Revenues	34,088.0	741.8	100.0	11,391.0	247.9	100.0	199.3%
Cost of revenues	19,710.8	429.0	57.8	5,469.8	119.0	48.0	260.4%
Gross profit	14,377.2	312.9	42.2	5,921.2	128.9	52.0	142.8%
Selling, general and administrative expenses	7,013.6	152.6	20.6	3,720.5	81.0	32.7	88.5%
Research and development expenses, net	934.4	20.3	2.7	958.2	20.9	8.4	(2.5)%
Amortization expenses	790.2	17.2	2.3	172.0	3.7	1.5	359.4%
Other operating (income)/expense net	(71.3)	(1.6)	(0.2)	60.9	1.3	0.5	(217.1)%
Operating income before forex loss/(gain)	5,710.3	124.3	16.8	1,009.6	22.0	8.9	465.6%
Forex loss/ (gain)	19.7	0.4	0.1	78.7	1.7	0.7	(75.0)%
Operating income/(loss)	5,690.6	123.8	16.7	930.9	20.3	8.2	511.3%
Equity in loss of affiliates	36.7	0.8	0.1	30.3	0.7	0.3	21.1%
Other expenses/(income) net	517.9	11.3	1.5	(368.0)	(8.0)	(3.2)	
Income before income taxes and minority interest	5,136.0	111.8	15.1	1,268.6	27.6	11.1	304.9%
Income tax (benefit)/expense	944.6	20.6	2.8	33.0	0.7	0.3	2,762.4%

Minority interest	3.9	0.1	0.0	1.3	0.0	0.0	200.0%
Net income	4,195.3	91.3	12.3	1,236.9	26.9	10.9	239.2%
Basic earnings per share (Rs.)	27.34			8.08			
Diluted earnings per share (Rs.)	27.23			8.07			

(1) As a percentage of our total revenues.

(2) Growth in six months ended September 30, 2006 as compared to six months ended September 30, 2005.

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Revenues were Rs.34,088.0 million for the six months ended September 30, 2006 as compared to Rs.11,391.0 million for the six months ended September 30, 2005, representing an increase of 199.3%.

Revenues from markets outside India were Rs.29,265.8 million for the six months ended September 30, 2006, contributing 85.9% to total revenues as compared to 62.2% for the six months ended September 30, 2005. Revenues from markets outside India have increased significantly over the last five years and contributed 49% in the year ended March 31, 2001.

Revenues from India increased for the six months ended September 30, 2006 by 12.1% to Rs.4,822.2 million as compared to the six months ended September 30, 2005.

Gross profits increased to Rs.14,377.2 million for the six months ended September 30, 2006 from Rs.5,921.2 million for the six months ended September 30, 2005. Gross profit margins on total revenues were 42.2% for the six months ended September 30, 2006 as compared to 52.0% for the six months ended September 30, 2005. Revenues from authorized generics contributed 32.7% to our total revenues and earned gross margin for the six months ended September 30, 2006. Gross margin associated with sales of authorized generics products were significantly below our average gross margin.

Selling, general and administrative, or SG&A expenses increased by 88.5% to Rs.7,013.6 million for the six months ended September 30, 2006. This increase was primarily on account of SG&A expenses relating to our acquired businesses, betapharm and Falcon.

Research and development expenses, net was 2.7% of total revenues for the six months ended September 30, 2006 as compared to 8.4% for the six months ended September 30, 2005. In absolute terms, research and development expenses increased by 27.2% to Rs.1,514.3 million for the six months ended September 30, 2006 as compared to Rs.1,190.5 million for the six months ended September 30, 2005. Under the terms of our research and development partnership agreement with I-VEN, we received U.S.$22.5 million in March 2005 to be applied to research and development costs in our generics segment, of which U.S.$8.4 million was recognized as a reduction in research and development expense for the six months ended September 30, 2006, as compared to U.S.5.3 million recognized for the six months ended September 30, 2005. Further, during the six months ended September 30, 2006, our research and development expenses in our drug discovery segment were lower on account of the reimbursement of expenses incurred by us on the development of NCE assigned to Perlecan in terms of our research and development arrangement entered into during the year ended March 31, 2006.

Amortization expense was Rs.790.2 million for the six months ended September 30, 2006 as compared to Rs.172.0 million for the six months ended September 30, 2005. This includes amortization expense of Rs.641.8 million relating to intangibles in betapharm and Falcon.

Other expense/(income), net was Rs.517.9 million for the six months ended September 30, 2006 as compared to other expense/(income), net of (Rs.368.0) million for the six months ended September 30, 2005. This was primarily on account of net interest expense of Rs.622.8 million for the six months ended September 30, 2006 as compared to net interest income of Rs.293.0 million for the six months ended September 30, 2005. The increase in interest expense during three months ended September 30, 2006 was due to the long term debt taken to fund the betapharm acquisition.

Net income was Rs.4,195.3 million (12.3% of total revenues) for the six months ended September 30, 2006 as compared to Rs.1,236.9 million (10.9% of total revenues) for the six months ended September 30, 2005. This

translates to basic and diluted earnings per share of Rs.27.34 and Rs.27.23, respectively,for the six months ended September 30, 2006 as compared to Rs.8.08 and Rs.8.07, respectively, for the six months ended September 30, 2005. This compares with basic and diluted earnings per share of Rs.10.64 and Rs.10.62, respectively, for the year ended March 31, 2006.

During the six months ended September 30, 2006, we incurred capital expenditure (net) of Rs.1,833.6 million.

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Our principal offices are located at 7-1-27, Ameerpet, Hyderabad, Andhra Pradesh 500 016, India, and our telephone number is +91-40-23731946. We maintain a website at http://www.drreddys.com, where general information about us is available. We are not incorporating the contents of our website into this prospectus supplement or the accompanying prospectus.

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THE OFFERING

American Depositary Shares offered by us	12,500,000 ADSs.
ADSs	Each ADS represents one equity share, par value Rs.5 per share. The ADSs will be evidenced by American Depositary Receipts. See Description of American Depositary Shares.
ADSs outstanding before this offering	21,289,255 ADSs.
ADSs outstanding after this offering	33,789,255 ADSs (assuming no exercise of the underwriters option to purchase additional ADSs).
Equity shares outstanding before this offering	153,515,604 equity shares.
Equity shares outstanding after this offering	166,015,604 equity shares (assuming no exercise of the underwriters option to purchase additional ADSs).
Use of proceeds	We estimate that the net proceeds after deducting underwriters discounts and commissions and estimated offering expenses payable by us from this offering without exercise of the over-allotment option will be approximately U.S.$195.3 million. We currently intend to use the net proceeds from the offering under this prospectus for general corporate purposes. These purposes may include geographic expansion, potential acquisitions of, or investments in, companies and technologies that complement our business, capital expenditures for increasing production capacities, addition of new capabilities, additions to our working capital and advances to or investments in our subsidiaries/ joint ventures. Net proceeds may be temporarily invested in bank term deposits prior to use. See Use of Proceeds.
Over-allotment option	We have granted to the underwriters an option to purchase up to 1,800,000 additional ADSs at the public offering price less the underwriting discounts and commission. The underwriters may exercise this option for 30 days from the date of this document solely to cover any over-allotments.
Dividends	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. The dividends are paid after approval of shareholders in the general meeting. Holders of ADSs will be entitled to receive dividends payable on equity shares represented by such ADSs. Cash dividends on equity shares represented by ADSs are paid to the Depositary in Indian rupees and are

	converted by the Depositary into U.S.$ and distributed, net of depositary fees, taxes, if any, and expenses, to the holders of such ADSs.
Risk factors	See Risk Factors and other information incorporated by reference into this document for a discussion of factors you should carefully consider before deciding to invest in our ADSs.

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Listing	We will list the ADSs offered by this prospectus supplement and the accompanying prospectus on the NYSE. Our Equity Shares are principally traded in India on the National Stock Exchange of India Limited and the Bombay Stock Exchange Limited.
NYSE symbol	RDY
Depositary	JPMorgan Chase Bank, N.A.

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SUMMARY FINANCIAL AND OPERATING DATA

Our summary financial and operating data for the fiscal years ended March 31, 2004, 2005, 2006 have been derived from audited financial statements (except for cash dividend per share) for the fiscal year ended March 31, 2004, 2005 and 2006 and summary financial and operating data for the three months ended June 30, 2005 and 2006 have been derived from unaudited condensed consolidated interim financial statements for the three months ended June 30, 2005 and 2006, all prepared in accordance with U.S. GAAP, which are included in and incorporated by reference in this prospectus supplement. You should read the following summary financial and operating data in conjunction with the information under Selected Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes appearing elsewhere in this prospectus supplement. Historical results are not necessarily indicative of future results.

The summary financial and operating data presented below for fiscal year ended March 31, 2006 and three months ended June 30, 2006 reflect the acquisition of Industrias Quimicas Falcon de Mexico effective December 30, 2005 and beta Holding GmbH effective March 3, 2006 and therefore the results for fiscal year ended March 31, 2006 and three months ended June 30, 2006 are not comparable to the results for prior periods. You should read the following summary financial and operating data in conjunction with the information under Unaudited Pro Forma Combined Statement of Operations.

	Fiscal Year Ended March 31,						Three M	
	2003(2)	2004	2005	2006		2005		
					Convenience Translation Into U.S.$			
	(Rs. in millions, U.S.$ in thousands, except share and per share data)							
08.8	Rs. 18,069.8	Rs. 20,081.2	Rs. 19,126.2	Rs. 24,077.2	U.S.$ 541,304	Rs. 5,573.8	R	
24.8			345.7	47.5	1,068	13.4		
89.1	3.9	22.3	47.5	142.3	3,200	4.2		
22.7	18,073.7	20,103.5	19,519.4	24,267.0	545,572	5,591.4		
69.0	7,744.9	9,337.3	9,385.9	12,417.4	279,168	2,662.9		
53.7	10,328.8	10,766.2	10,133.5	11,849.6	266,404	2,928.5		
74.1	5,103.2	6,542.5	6,774.6	8,028.9	180,505	1,953.8		
42.4	1,411.8	1,991.6	2,803.3	2,153.0	48,403	514.7		
87.7	419.5	382.9	349.9	419.9	9,439	95.6		
09.0)	70.1	(282.5)	488.8	126.3	2,840	65.7		
27.1	0.2	83.2	6.0	(320.4)	(7,202)	36.9		

22.3		7,004.8		8,717.7		10,422.6		10,407.7		233,988		2,666.7		
31.4		3,324.0		2,048.5		(289.1)		1,441.9		32,418		261.8		
30.5)		(92.1)		(44.4)		(58.1)		(88.2)		(1,984)		(14.5)		
81.6		576.8		535.9		454.2		533.6		11,997		172.6		
82.5		3,808.7		2,540.0		107.0		1,887.3		42,431		419.9		
53.8)		(398.1)		(69.2)		94.3		(258.3)		(5,809)		(72.5)		
14.9)		(6.7)		3.4		9.9		(0.1)		(2)		(0.1)		
13.8	Rs.	3,403.9	Rs.	2,474.2	Rs.	211.2	Rs.	1,628.9	U.S.$	36,620	Rs.	347.3	R	
2.32	Rs.	22.24	Rs.	16.17	Rs.	1.38	Rs.	10.64	U.S.$	0.24	Rs.	2.27	R	
2.26	Rs.	22.24	Rs.	16.16	Rs.	1.38	Rs.	10.62	U.S.$	0.24	Rs.	2.27	R	
,130		153,031,896		153,027,528		153,037,898		153,093,316		153,093,316		153,065,150		
,136		153,031,896		153,099,196		153,119,602		153,403,846		153,403,846		153,324,350		
7.00	Rs.	2.50	Rs.	5.00	Rs.	5.00	Rs.	5.00	U.S.$	0.11				

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(1) Each ADS represents one equity share.

(2) Effective as of fiscal year 2003, we selected the retroactive modified method of adoption described in Statement of Financial Accounting Standards No. 148 *Accounting for Stock Based Compensation Transition and Disclosure.* Accordingly, the operating results for the fiscal year ended March 31, 2002 and 2003, which are the only prior periods impacted, have been modified in accordance with the retroactive modified method of adoption.

The Company has reclassified certain expense/income for the fiscal years ended March 31, 2002, 2003, 2004 and 2005, between cost of revenues, operating expenses, revenues, other expense / income and other operating expense/income, to conform to the current year presentation. These reclassifications increased the previously reported gross profit of fiscal year 2002, 2003, 2004 and 2005 by Rs.Nil, Rs.106.6 million, Rs. 31.1 million and Rs. 47.4 million respectively and increased / (reduced) the previously reported operating income of fiscal years 2002, 2003 and 2004 by Rs.(27.1) million, Rs.106.4 million and Rs.(31.7) million respectively and reduced the operating loss for the fiscal year 2005 by Rs.77.3 million. There is however no change in the previously reported net income for the fiscal years 2002, 2003, 2004 and 2005.

(3) On August 30, 2006, we distributed a stock dividend of one equity share for each equity share and ADS issued and outstanding as of August 29, 2006. The number of equity shares presented in the summary consolidated financial data reflect this stock dividend for all periods presented.

	Fiscal Year Ended March 31,						Three Months Ended	
	2002	2003	2004	2005	2006	2006 Convenience Translation Into U.S.$	2005	2
	(Rs. in millions, U.S.$ in thousands, except share and per share data)							
s	Rs. 4,652.8	Rs. 4,366.7	Rs. 3,999.2	Rs. 2,291.6	Rs. 1,643.1	U.S.$ 36,941	Rs. 202.2	Rs. 599.9
s	(1,532.9)	(1,954.7)	(6,506.1)	632.9	(34,524.4)	(776,179)	(224.3)	325.7
s	1,421.8	(153)	(376.1)	1,931.3	27,210.9	611,757	1,134.2	289.9
e								
sh	88.8	(95)	(14.2)	55.8	95.1	2,138	(36.0)	(291.0)
l								
	(1,090.3)	(1,515.7)	(2,415.6)	(1,749.2)	(1,873.3)	(42,115)	(294.8)	(887.3)

	As of March 31,					As of June 30,
	2002	2003	2004	2005	2006	2006 Convenience Translation Into U.S.$

(Rs. in millions, U.S.$ in thousands, except share and per share data)

heet

ash								
Rs. 5,109.4	Rs. 7,273.4	Rs. 4,376.2	Rs. 9,287.9	Rs. 3,712.6	U.S.$ 83,468	Rs. 3,437.3	U.S.$	
pital 9,518.6	12,023.5	11,103.3	10,770.9	1,345.1	30,242	978.4		
s 18,967.0	23,091.7	26,619.3	29,288.4	68,768.1	1,546,045	77,492.5		
term								
ding								
tion 47.0	40.91	31.0	25.1	20,937.1	470,709	21,724.9		
15,457.4	18,831.8	21,039.4	20,953.2	22,271.7	500,713	24,046.8		
rs								
15,457.4	18,831.8	21,039.4	20,953.2	22,271.7	500,713	24,046.8		

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RISK FACTORS

Investing in the securities offered using this prospectus supplement and accompanying prospectus involves risk. You should consider carefully the following risk factors as well as the risks described in the documents incorporated by reference into this prospectus supplement and the accompanying prospectus before you decide to buy your securities. 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. If any of these risks actually occur you may lose all or part of your investment.

Risks Relating to Our Company and Our Business

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

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

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

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

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

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

competitors have broader product ranges, stronger sales forces and better segment positioning than us, which enables them to compete effectively.

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

authorized generic. Selling prices of generic drugs typically decline, sometimes dramatically, as additional companies receive approvals for a given product and competition intensifies. Our ability to sustain our sales and profitability of any product over time is dependent on both the number of new competitors for such product and the timing of their approvals.

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

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

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

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

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

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

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

Increasing expenditures for health care have been the subject of considerable public attention in almost every jurisdiction where we conduct business. Both private and governmental entities are seeking ways to reduce or contain health care costs. In many countries in which we currently operate, including India, pharmaceutical prices are subject

to regulation. The existence of price controls can limit the revenues we earn from our products. In the United States, numerous proposals that would effect changes in the United States

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health care system have been introduced or proposed in Congress and in some state legislatures, including the enactment in December 2003 of expanded Medicare coverage for drugs, which became effective in January 2006. In Germany, the government has introduced several healthcare reforms in order to control healthcare spending and promote the prescribing of generic drugs. As a result, the prices of generic pharmaceutical products in Germany have declined and may further decline in the future. Similar developments may take place in our other key markets. We cannot predict the nature of the measures that may be adopted or their impact on the marketing, pricing and demand for our products.

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

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

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

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

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

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

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

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

Our success with our innovative products depends, in part, on our ability to protect our current and future innovative products and to defend our intellectual property rights. If we fail to adequately protect our intellectual property,

competitors may manufacture and market products similar to ours. We have been issued patents covering our innovative products and processes and have filed, and expect to continue to file, patent applications seeking to protect our newly developed technologies and products in various countries, including

the United States. Any existing or future patents issued to or licensed by us may not provide us with any competitive advantages for our products or may even be challenged, invalidated or circumvented by competitors. In addition, such patent rights may not prevent our competitors from developing, using or commercializing products that are similar or functionally equivalent to our products.

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

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

The policy of the U.S. FDA regarding the award of 180 days of market exclusivity to generic manufacturers who challenge patents relating to specific products continues to be the subject of extensive litigation in the United States. During this 180-day market exclusivity period, nobody other than the generic manufacturer who won exclusivity relating to the specific product can market that product. The U.S. FDA s current interpretation of the Hatch-Waxman Act of 1984 is to award 180 days of exclusivity to the first generic manufacturer who files a Paragraph IV certification under the Hatch-Waxman Act challenging the patent of the branded product, regardless of whether that generic manufacturer was sued for patent infringement.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 amended the Hatch-Waxman Act and provides that the 180-day market exclusivity period is triggered by the commercial marketing of the product, as opposed to the old rule under which the exclusivity period was triggered by a final, non-appealable court decision. However, the Medicare Prescription Drug Act also contains forfeiture provisions, which, if met, will deprive the first Paragraph IV filer of exclusivity. As a result, under certain circumstances, we may not be able to exploit our 180-day exclusivity period since it may be forfeited prior to our being able to market the product.

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

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

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

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

operations or liquidity.

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

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

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

As of March 31, 2006, we market our products in 86 countries. Our products are marketed in most of these countries through our subsidiaries as well as joint ventures. Since we do not have the resources to market and distribute our products ourselves in all our export markets, we also market and distribute our products through third parties by way of marketing and agency arrangements. These arrangements may be terminated by either party providing the other with notice of termination or when the contract regarding the arrangement expires. We may not be able to successfully negotiate these third party arrangements or find suitable joint venture partners in the future. Any of these arrangements may not be available on commercially reasonable terms. Additionally, our marketing partners may make important marketing and other commercialization decisions with respect to products we develop without our input. As a result, many of the variables that may affect our revenues and net income are not exclusively within our control when we enter into arrangements like these.

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

We may incur substantial costs complying with requirements of environmental laws and regulations. In addition, we may discover currently unknown environmental problems or conditions. In all countries in which we have production facilities, we are subject to significant environmental laws and regulations which govern the discharge, emission, storage, handling and disposal of a variety of substances that may be used in or result from our operations. If any of our plants or the operations of such plants are shut down, we may continue to incur costs in complying with regulations, appealing any decision to close our facilities, maintaining production at our existing facilities and continuing to pay labor and other costs which may continue even if the facility is closed. As a result, our overall operating expenses may increase and our profits may decrease.

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

Several areas of the world, including India, have experienced terrorist acts and retaliatory operations recently. For example, Mumbai was the target of serial railway bombings in July 2006. If the economy of our major markets is

affected by such acts, our business and results of operations may be adversely affected as a consequence.

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

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

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

If we have difficulties in integration and employee retention for beta Holding GmbH or Industrias Quimicas Falcon de Mexico, SA de CV, our business may be harmed.

In fiscal 2006, we expanded the scope of our generics and custom pharmaceutical services businesses through the acquisition of beta Holding GmbH in Germany and Industrias Quimicas Falcon de Mexico, SA de CV in Mexico, and we began our efforts to integrate them with our own operations. Should we ultimately fail to successfully integrate these companies with our existing operations, or should the achievement of a successful integration significantly divert management s attention away from the operation of our business, then our business, financial condition or results of operations could be materially adversely affected. In addition, beta Holding GmbH was a large acquisition relative to our size. As a consequence, the operating results of beta Holding GmBH could have a significant impact on our financial condition or results of operations.

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

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

- We may fail to successfully integrate our acquisitions in accordance with our business strategy.
- Integration of acquisitions may divert management s attention away from our primary product offerings, resulting in the loss of key customers and/or personnel, and may expose us to unanticipated liabilities.
- We may not be able to retain the skilled employees and experienced management that may be necessary to operate the businesses we acquire. If we cannot retain such personnel, we may not be able to locate or hire new skilled employees and experienced management to replace them.
- We may purchase a company that has contingent liabilities that include, among others, known or unknown patent or product liability claims.

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

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

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

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

Our full time directors together with members of their immediate families, in the aggregate, beneficially own 27.16% of our issued shares as at June 30, 2006. As a result, these people, acting in concert, are likely to have the ability to exercise significant control over most matters requiring approval by our shareholders, including the election and removal of directors and significant corporate transactions. This control by these directors and their family members could delay, defer or prevent a change in control of us, impede a merger, consolidation, takeover or other business combination involving us, or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, even if that was in our best interest. As a result, the value of your ADSs may be adversely affected or you might be deprived of a potential opportunity to sell your ADSs at a premium.

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

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

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

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

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

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

Currently, we operate our business through subsidiaries and equity investees in other countries. In those countries where we have limited experience in operating subsidiaries, such as Germany and Mexico, and in

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

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

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

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

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

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

We operate in a highly competitive and rapidly consolidating industry.

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

Risks Relating To Investments In Indian Companies

We are an Indian company and a substantial part of our operations are conducted, and most of our assets are located, in India. In addition, approximately 34.1% of our total revenues for the year ended March 31, 2006 were derived from sales in India. As a result, the following additional risk factors apply.

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

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

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

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

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

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

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

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

In addition, although India s inflation levels were relatively moderate during the year ended March 31, 2006, its inflation levels have been much higher at times during the past decade. According to the monthly economic report for September 2006 released by the Department of Economic Affairs, Ministry of Finance in India, the annual inflation rate in India, as measured by the benchmark wholesale price index (Base 1993-94=100), was 5.16% for the week ended September 30, 2006 as compared with 4.61% for the week ended October 1, 2005. The trend may continue and the rate of inflation may further rise. We may not be able to pass these costs on to our customers by increasing the price we charge for our products. If this occurs, our profits may decline.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Risks Relating To Our ADSs and Equity Shares

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

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

An active or liquid trading market for our ADSs is not assured.

While this offering will increase the number of our ADSs publicly trading in the United States, an active, liquid trading market for our ADSs may not be maintained in the long term. Loss of liquidity could increase the price volatility of our ADSs.

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

Indian legal restrictions may limit the supply of ADSs. Although ADS holders are entitled to withdraw the equity shares underlying the ADSs from the depositary at any time, under current Indian law, subject to certain limited exceptions, equity shares so acquired may not be redeposited with the depositary. Therefore, the number of outstanding ADSs will decrease to the extent that equity shares are withdrawn from the depositary which may affect the market price and the liquidity of your 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 may be sold. Additionally, except under certain limited circumstances, if an investor seeks to convert the rupee proceeds from a sale of equity shares in India into foreign currency and then repatriate that foreign currency from India, he or she will have to obtain Reserve Bank of India approval 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.

If a substantial number of our shares are offered for sale, the trading price of your ADSs may be depressed.

Sales of additional equity shares or ADSs into the public market following the offering, whether on the Indian stock exchanges or into the U.S. market, could adversely affect the market price of the ADSs. Upon consummation of the offering, 166,015,604 shares will be issued and outstanding, including 12,500,000 shares represented by 12,500,000 ADSs issued in connection with the offering. Of the 153,515,604 shares issued and outstanding prior to the issuance of the ADSs, holders of approximately 41,140,718 shares (including all

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shares held by all executive directors and Dr. Reddy s Holdings Private Limited) have agreed not to offer, sell, contract to sell, grant any option to purchase or otherwise dispose of, or agree to dispose of, any shares for a period of 180 days following the date of this prospectus supplement and accompanying prospectus. The Underwriters may release the shares from the lock-up in their sole discretion at any time and without prior public announcement. Substantially all of the shares that are not subject to these lock-ups will be freely tradeable in India immediately after the offering. Upon expiration of the lock-up period (or earlier with consent), substantially all of the shares will be available for sale on the Indian stock exchanges. Sales of substantial amounts of shares, or the availability of the shares for sale, could decrease the market price of the ADS.

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

Market prices for the securities of pharmaceutical and biotechnology 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:

fluctuations in our operating results,

the aftermath of our public announcements,

concern as to safety of drugs, and

general market conditions.

The market prices of our shares and ADSs are likely to be particularly volatile due to:

our dependence on drug research and development to drive future operating results,

the inclusion of our shares in the BSE Sensex Index and NSE CNX NIFTY Index, and

the absence of comparable companies in the markets.

FORWARD-LOOKING STATEMENTS

In addition to historical information, this prospectus supplement 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). Forward-looking statements are all statements that concern plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are other than statements of historical fact, including, but not limited to, those that are identified by the use of words such as anticipates, believes, estimates, expects, intends, plans, predicts, projects and similar expressions. Ri uncertainties that could affect us include, without limitation:

general economic and business conditions in India and the other jurisdictions in which we operate;

the ability to successfully implement our strategy, our research and development efforts, growth and expansion plans and technological changes;

changes in the value of the Indian rupee and the currencies of the other jurisdictions in which we operate;

changes in the Indian and international interest rates;

allocations of funds by the governments of the jurisdictions in which we operate;

changes in laws and regulations that apply to our customers, suppliers, and the pharmaceutical industry in all the jurisdictions in which we operate;

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increasing competition in and the conditions of our customers, suppliers and the pharmaceutical industry; and

changes in political conditions in India and the other jurisdictions in which we operate.

Should one or more of such risks and uncertainties materialize, or should any underlying assumption prove incorrect, actual outcomes may vary materially from those indicated in the applicable forward-looking statements. Investors are cautioned not to place undue reliance on these forward-looking statements, which reflect management s analysis only as of the date hereof. We are not required to update any such statement or information to either reflect events or circumstances that occur after the date the statement or information is made or to account for unanticipated events. In addition, investors should carefully review the other information in this prospectus supplement and the accompanying prospectus and in our periodic reports and other documents filed and/or furnished with the Securities and Exchange Commission (SEC) from time to time.

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USE OF PROCEEDS

We estimate that the net proceeds after deducting underwriters discounts and commissions and estimated offering expenses payable by us from this offering, without exercise of the over-allotment option, will be approximately U.S.$195.3 million. We currently intend to use the net proceeds from the offering under this prospectus for general corporate purposes. These purposes may include geographic expansion, potential acquisitions of, or investments in, companies and technologies that complement our business, capital expenditures for increasing production capacities, addition of new capabilities, additions to our working capital and advances to or investments in our subsidiaries/ joint ventures. Net proceeds may be temporarily invested in bank term deposits prior to use.

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PRICE RANGE OF OUR EQUITY SHARES AND AMERICAN DEPOSITARY SHARES

The shares issued and outstanding prior to the offering are listed and traded on the Bombay Stock Exchange Limited or the BSE and the National Stock Exchange of India Limited or the NSE. The prices for shares as quoted in the official list of each of the Indian stock exchanges are expressed in Indian rupees. The ADSs to be issued, each representing one equity share, have been approved for listing on the New York Stock Exchange, or the NYSE, subject to notice of issuance.

We expect that the shares underlying the ADSs will be listed on the BSE and NSE within one week of the offering. The information presented in the table below represents, for the periods indicated:

- the reported high and low equity shares closing prices, quoted in Indian rupees for the shares on the BSE and the reported high and low ADS closing prices, quoted in U.S.$ for the ADSs on the NYSE, for the five most recent fiscal years ended March 31;

- the reported high and low equity shares closing prices, quoted in Indian rupees for the shares on the BSE and the reported high and low ADS closing prices, quoted in U.S.$ for the ADSs on the NYSE, for the 8 most recent quarters; and

- the reported high and low equity shares closing prices, quoted in Indian rupees for the shares on the BSE and the reported high and low ADS closing prices, quoted in U.S.$ for the ADSs on the NYSE, for the six most recent months.

On November 9, 2006, the closing price of our shares on the BSE was Rs.773.30 equivalent to U.S.$17.39 per share, translated at the noon buying rate of Rs.44.46 per U.S.$1.00 on November 9, 2006. See Risk Factors for a discussion of factors that may affect the market price of the ADSs.

	BSE		NYSE	
Fiscal Year	**Price Per Equity Share**		**Price Per Ads**	
Ended March 31,	**High (Rs.)**	**Low (Rs.)**	**High ($)**	**Low ($)**
2006	1,513.00	613.00	33.34	14.91
2005	1,002.90	652.50	24.80	15.05
2004	1,470.00	808.00	33.05	17.58
2003	1,149.90	675.00	24.00	13.30
2002	1,120.00	432.00(1)	25.64	10.04

	BSE		NYSE	
	Price Per Equity Share		**Price Per Ads**	
Three Months Ended	**High (Rs.)**	**Low (Rs.)**	**High ($)**	**Low ($)**
December 31, 2004	879.00	703.00	19.90	16.18
March 31, 2005	890.00	690.00	19.89	16.56

June 30, 2005	762.00	613.00	17.59	14.91
September 30, 2005	865.00	725.00	19.69	17.00
December 31, 2005	990.00	781.50	22.20	17.61
March 31, 2006	1,513.00	950.00	33.34	21.79
June 30, 2006	1,754.00	1,158.00	38.12	24.61
September 30, 2006	751.50(2)	700.00	16.06(2)	15.05(2)

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	BSE Price Per Equity Share		NYSE Price Per Ads	
Month Ended	**High (Rs.)**	**Low (Rs.)**	**High ($)**	**Low ($)**
May 31, 2006	1,754.00	1,282.10	38.12	27.89
June 30, 2006	1,451.50	1,158.00	29.21	24.61
July 31, 2006	1,454.80	1,195.00	31.40	26.31
August 30, 2006	751.50(2)	711.70(2)	32.11(3)	29.76(3)
September 30, 2006	773.50	700.00	16.58	15.05
October 31, 2006	774.00	701.00	17.25	15.25

Source: www.bseindia.com and www.adr.com, respectively.

(1) Stock prices per share have been restated to reflect a two for one stock split, effective on October 25, 2001.

(2) Adjusted for stock dividend for comparison purpose.

(3) The stock dividend and subsequent price adjustment was effective on the NYSE on September 7, 2006. Therefore, there is no adjustment in the ADS price at the NYSE for August 2006. The prices at the BSE and the NYSE are not comparable as of August 30, 2006.

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DIVIDEND POLICY

In the fiscal years ended March 31, 2004, 2005 and 2006, our shareholders declared cash dividends of Rs.5, Rs.5 and Rs.5, respectively, per equity share. Every year our Board of Directors recommends the amount of dividends to be paid to shareholders, if any, based upon conditions then existing, including our earnings, financial condition, capital requirements and other factors. The dividends are paid after approval of our shareholders in our annual general meeting.

Holders of ADSs will be entitled to receive dividends payable on equity shares represented by such ADSs. Cash dividends on equity shares represented by ADSs are paid to the Depositary in Indian rupees and are converted by the Depositary into U.S. dollars and distributed, net of depositary fees, taxes, if any, and expenses, to the holders of such ADSs.

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CAPITALIZATION

The following table sets forth, as of September 30, 2006, our cash and capitalization prepared in accordance with U.S. GAAP on:

an actual basis; and

an adjusted basis giving effect to the sale by us of 12,500,000 ADSs (representing 12,500,000 equity shares) in this offering and after deducting underwriters discounts, commissions and estimated offering expenses payable by us.

The following table should be read in conjunction with our consolidated financial statements and the related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations.

	As of September 30, 2006			
	Actual		As Adjusted for this Offering	
	(All amounts in thousand)			
	Rs.	U.S.$[1]	Rs.	U.S.$[1]
Cash and cash equivalents[2]	4,875,531	106,105	13,849,566	301,405
Borrowings from banks	8,817,947	191,903	8,817,947	191,903
Current portion of long term debt	2,935,199	63,878	2,935,199	63,878
Total short term debt and current portion of long term debt	11,753,146	255,781	11,753,146	255,781
Total long term debt, excluding current portion	20,607,472	448,476	20,607,472	448,476
Stockholders equity				
Equity shares at Rs.5 par value: 200,000,000 shares authorized; Issued and outstanding: 153,515,604 shares actual, 166,015,604 shares as adjusted	767,578	16,705	830,078	18,065
Additional paid in capital	9,930,832	216,123	18,842,367	410,062
Equity options outstanding	492,210	10,712	492,210	10,712
Retained earnings	14,959,592	325,562	14,959,592	325,562
Equity shares held by a controlled trust: 82,800 shares	(4,882)	(106)	(4,882)	(106)
Accumulated and other comprehensive income	361,054	7,858	361,054	7,858
Total stockholders equity	26,506,384	576,853	35,480,419	772,153
Total capitalization	58,867,002	1,281,110	67,841,037	1,476,410

(1) Translated for convenience only, based on the noon buying rate in the City of New York on September 30, 2006, for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York, which was Rs.45.95 per U.S.$1.00 and the ratio of one equity share to one ADS.

(2) The offer price of ADS covered in this offering was U.S.$16.00. It has been translated in Indian Rupees for convenience only, based on the noon buying rate in the City of New York on September 30, 2006, for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York, which was Rs.45.95 per U.S.$1.00 and the ratio of one equity share to one ADS.

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EXCHANGE RATES

Fluctuations in the exchange rate between the Indian rupee and the U.S. dollar will affect the U.S. dollar equivalent of the Indian rupee price of the shares on the Indian stock exchanges and, as a result, will likely affect the market price of the ADSs in the United States, and vice versa. These fluctuations will also affect the U.S. dollar conversion by the depositary of any cash dividends paid in Indian rupees on the shares represented by the ADSs.

Our operations are conducted in a large number of countries around the world. As a result, our net income in Indian rupee terms and its presentation in U.S. dollars can be significantly affected by movements in currency exchange rates, in particular the movement of the Indian rupee against the U.S. dollar. See Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations.

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

Fiscal Year Ended March 31,	Period End	Average	High	Low
2002	48.83	47.80	48.83	46.88
2003	47.53	48.43	49.07	47.53
2004	43.40	45.96	47.46	43.40
2005	43.62	44.86	46.45	43.27
2006	44.48	44.17	46.26	43.05

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

Month	High	Low
May 2006	44.81	46.22
June 2006	46.25	45.50
July 2006	46.83	45.84
August 2006	46.61	46.32
September 2006	46.38	45.74
October 2006	45.97	44.90

For the convenience of the reader, this prospectus supplement contains translations of Indian rupee amounts into U.S. dollars which should not be construed as a representation that the Indian rupee or U.S. dollar amounts referred to in this prospectus supplement could have been, or could be, converted into U.S. dollars or Indian rupees at any particular rate, the rates stated below, or at all. Except as otherwise stated in this prospectus, all translations from

Indian rupees to U.S. dollars, for the year ended March 31, 2006, three months ended June 30, 2006 and three and six months ended September 30, 2006, contained in this prospectus supplement are based on the noon buying rate in the City of New York on March 31, 2006, June 30, 2006 and September 30, 2006, respectively, for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York. The noon buying rate on March 31, 2006, June 30, 2006 and September 30, 2006 was Rs.44.48 per U.S.$1.00, Rs.45.87 per U.S.$1.00 and Rs.45.95 per U.S.$1.00, respectively. The noon buying rate on November 9, 2006 was Rs.44.46 per U.S.$1.00. The exchange rates used in this prospectus supplement for translations of Indian rupee amounts into U.S. dollars for convenience purposes differ from the actual rates used in the preparation of our consolidated financial statements, and U.S. dollar amounts used in this prospectus supplement differ from the actual U.S. dollar amounts that were translated into Indian rupees in the financial statements.

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DILUTION

At June 30, 2006, we had a net tangible book value of Rs.156.75 per equity share or U.S.$3.42 per ADS (based on the noon buying rate in the City of New York on June 30, 2006 for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York, which was Rs.45.87 per U.S.$1.00 and the ratio of one equity share to one ADS). Net tangible book value represents the amount of our total assets less our total liabilities, divided by 153,404,506, the total number of our equity shares outstanding at June 30, 2006.

After giving effect to the sale by us of 12,500,000 ADSs offered by us in the offering, and assuming that the underwriters over-allotment option is not exercised, and after deducting the estimated underwriting discounts, commissions and estimated offering expenses payable by us, our net tangible book value estimated after this offering is approximately Rs.198.94 per share, representing U.S.$4.34 per ADS. This represents an immediate increase in net tangible book value of Rs.42.19 per equity share, or U.S.$0.92 per ADS to existing shareholders and an immediate dilution in net tangible book value of Rs.534.98 per equity share, or U.S.$11.66 per ADS to new investors purchasing equity shares in this offering. Dilution for this purpose represents the difference between the price per equity share or ADS paid by these purchasers and net tangible book value per ADS immediately after the completion of the offering.

The following table illustrates this dilution to new investors purchasing ADSs, in the offering:

	Equity Shares	ADSs	
Initial public offering price per ADS	Rs.733.92(1)	U.S.$	16.00
Net tangible book value per ADS at June 30, 2006	156.75		3.42(1)
Increase in net tangible book value per equity share or ADS attributable to new investors	42.19		0.92(1)
Pro forma net tangible book value per equity share or ADS after the offering	198.94		4.34(1)
Dilution per equity share or ADS to new investors	Rs.534.98	U.S.$	11.66(1)
Percentage of dilution in net tangible book value per equity share or ADS for new investors(2)	72.89%		

(1) The offer price of ADS covered in this offering was U.S.$ 16.00. It has been translated in Indian Rupees for convenience only, based on the noon buying rate in the City of New York on June 30, 2006, for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York, which was Rs.45.87 per U.S.$1.00 and the ratio of one equity share to one ADS.

(2) Percentage of dilution for new investors is calculated by dividing the dilution in net tangible book value for new investors in Indian Rupees by the price of the offering in Indian Rupees.

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SELECTED CONSOLIDATED FINANCIAL DATA

Our selected financial and operating data for the fiscal years ended March 31, 2004, 2005, 2006 have been derived from audited financial statements (except for cash dividend per share) for the fiscal year ended March 31, 2004, 2005 and 2006 and summary financial and operating data for the three months ended June 30, 2005 and 2006 have been derived from unaudited condensed consolidated interim financial statements for the three months ended June 30, 2005 and 2006, all prepared in accordance with U.S. GAAP, which are included in and incorporated by reference in this prospectus supplement. You should read the following summary financial and operating data in conjunction with the information under Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes appearing elsewhere in this prospectus supplement. Historical results are not necessarily indicative of future results.

The selected financial and operating data presented below for fiscal year ended March 31, 2006 reflects the acquisition of Industrias Quimicas Falcon de Mexico effective December 30, 2005 and beta Holding GmbH effective March 3, 2006 and therefore the results for fiscal year ended March 31, 2006 are not comparable to the results for prior fiscal years. You should read the following summary financial and operating data in conjunction with the information under Unaudited Pro Forma Combined Statement of Operations.

	Fiscal Year Ended March 31,						Three M
2003[2]	2004	2005	2006		2005		
				Convenience translation into U.S.$			
(Rs. in millions, U.S.$ in thousands, except share and per share data)							
08.8	Rs. 18,069.8	Rs. 20,081.2	Rs. 19,126.2	Rs. 24,077.2	U.S.$ 541,304	Rs. 5,573.8	R
24.8			345.7	47.5	1,068	13.4	
89.1	3.9	22.3	47.5	142.3	3,200	4.2	
22.7	18,073.7	20,103.5	19,519.4	24,267.0	545,572	5,591.4	
69.0	7,744.9	9,337.3	9,385.9	12,417.4	279,168	2,662.9	
53.7	10,328.8	10,766.2	10,133.5	11,849.6	266,404	2,928.5	
74.1	5,103.2	6,542.5	6,774.6	8,028.9	180,505	1,953.8	
42.4	1,411.8	1,991.6	2,803.3	2,153.0	48,403	514.7	
87.7	419.5	382.9	349.9	419.9	9,439	95.6	
09.0)	70.1	(282.5)	488.8	126.3	2,840	65.7	
27.1	0.2	83.2	6.0	(320.4)	(7,202)	36.9	

22.3		7,004.8		8,717.7		10,422.6		10,407.7		233,988		2,666.7		
31.4		3,324.0		2,048.5		(289.1)		1,441.9		32,418		261.8		
30.5)		(92.1)		(44.4)		(58.1)		(88.2)		(1,984)		(14.5)		
81.6		576.8		535.9		454.2		533.6		11,997		172.6		
82.5		3,808.7		2,540.0		107.0		1,887.3		42,431		419.9		
53.8)		(398.1)		(69.2)		94.3		(258.3)		(5,809)		(72.5)		
14.9)		(6.7)		3.4		9.9		(0.1)		(2)		(0.1)		
13.8	Rs.	3,403.9	Rs.	2,474.2	Rs.	211.2	Rs.	1,628.9	U.S.$	36,620	Rs.	347.3	R	
2.32	Rs.	22.24	Rs.	16.17	Rs.	1.38	Rs.	10.64	U.S.$	0.24	Rs.	2.27	R	
2.26	Rs.	22.24	Rs.	16.16	Rs.	1.38	Rs.	10.62	U.S.$	0.24	Rs.	2.27	R	
,130		153,031,896		153,027,528		153,037,898		153,093,316		153,093,316		153,065,150		
,136		153,031,896		153,099,196		153,119,602		153,403,846		153,403,846		153,324,350		
7.00	Rs.	2.50	Rs.	5.00	Rs.	5.00	Rs.	5.00	U.S.$	0.11				

(1) Each ADS represents one equity share.

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(2) Effective as of fiscal year 2003, we selected the retroactive modified method of adoption described in Statement of Financial Accounting Standards No. 148 *Accounting for Stock Based Compensation Transition and Disclosure.* Accordingly, the operating results for the fiscal year ended March 31, 2002 and 2003, which are the only prior periods impacted, have been modified in accordance with the retroactive modified method of adoption. The Company has reclassified certain expense/income for the fiscal years ended March 31, 2002, 2003, 2004 and 2005, between cost of revenues, operating expenses, revenues, other expense / income and other operating expense/income, to conform to the current year presentation. These reclassifications increased the previously reported gross profit of fiscal year 2002, 2003, 2004 and 2005 by Rs.Nil, Rs.106.6 million, Rs. 31.1 million and Rs. 47.4 million respectively and increased/(reduced) the previously reported operating income of fiscal years 2002, 2003 and 2004 by Rs.(27.1) million, Rs.106.4 million and Rs.(31.7) million respectively and reduced the operating loss for the fiscal year 2005 by Rs.77.3 million. There is however no change in the previously reported net income for the fiscal years 2002, 2003, 2004 and 2005.

(3) On August 30, 2006, we distributed a stock dividend of one equity share for each equity share and ADS issued and outstanding as of August 29, 2006. The number of equity shares presented in the selected consolidated financial data reflect this stock dividend for all periods presented.

	Fiscal Year Ended March 31,						Three Months Ended	
	2002	2003	2004	2005	2006		2005	2
						Convenience translation into U.S.$		
	(Rs. in millions, U.S.$ in thousands, except share and per share data)							
s	Rs. 4,652.8	Rs. 4,366.7	Rs. 3,999.2	Rs. 2,291.6	Rs. 1,643.1	U.S.$ 36,941	Rs. 202.2	Rs. 599.9
s	(1,532.9)	(1,954.7)	(6,506.1)	632.9	(34,524.4)	(776,179)	(224.3)	325.7
s	1,421.8	(153)	(376.1)	1,931.3	27,210.9	611,757	1,134.2	289.9
e								
sh	88.8	(95)	(14.2)	55.8	95.1	2,138	(36.0)	(291.0)
d	(1,090.3)	(1,515.7)	(2,415.6)	(1,749.2)	(1,873.3)	(42,115)	(294.8)	(887.3)

	As of March 31,					As of June 30	
	2002	2003	2004	2005	2006	2006	
					Convenience translation into U.S.$	Conv translat U	
	(Rs. in millions, U.S.$ in thousands, except share and per share data)						
heet							
	Rs. 5,109.4	Rs. 7,273.4	Rs. 4,376.2	Rs. 9,287.9	Rs. 3,712.6	U.S.$ 83,468	Rs. 3,437.3 U.S.$

ash							
pital	9,518.6	12,023.5	11,103.3	10,770.9	1,345.1	30,242	978.4
s	18,967.0	23,091.7	26,619.3	29,288.4	68,768.1	1,546,045	77,492.5
term							
ding							
tion	47.0	40.91	31.0	25.1	20,937.1	470,709	21,724.9
	15,457.4	18,831.8	21,039.4	20,953.2	22,271.7	500,713	24,046.8
rs							
	15,457.4	18,831.8	21,039.4	20,953.2	22,271.7	500,713	24,046.8

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following Management s Discussion and Analysis of Financial Condition and Results of Operations in conjunction with our consolidated financial statements and related notes appearing elsewhere in this prospectus supplement. Our consolidated financial statements have been presented in Indian Rupees and prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. The following discussion and analysis contains forward-looking statements, which involve risks and uncertainties. Our results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those described in this section, the Risk Factors section and elsewhere in this prospectus supplement.

Overview

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

As of June 30, 2006, we had the following business segments:

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

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

Generics. In this segment we derive revenues from the sale of therapeutic equivalents of branded drugs, primarily in Europe and the United States. Revenues from beta Holding GmbH (betapharm), our recently acquired business in Germany, are included in this segment from March 3, 2006 and thus will tend to increase revenues from this segment in future periods. Revenues from our sale of generics are highly cyclical. In the event that we obtain 180-day exclusivity for a particular product, we generally experience significantly increased revenues for this period, particularly at the beginning of the period, with sales prices decreasing toward the end of the 180 days as other manufacturers enter the market. Cost of sales remains generally constant, however, and thus products coming off patent contribute significantly to gross margins for a limited period, tending to increase volatility in this segment. Subsequent to March 31, 2006, we launched two products pursuant to an agreement for authorized generics, pursuant to which the innovator company licensed us to distribute generic versions of their branded product and sell it in competition with the companies that have 180-day exclusivity. In these cases, while sales volumes increase significantly (again, more significantly in the early part of the 180-day period), profit-sharing agreements with the innovator company mean that gross

margins are much lower than would be the case if we were distributing the product under 180-day exclusivity. Additionally, the existence of authorized generic arrangements (a relatively new development) by innovator companies with other manufacturers in cases where we have obtained 180-day exclusivity could adversely affect overall sales revenues during the 180-day period.

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

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

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

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

Our revenues for fiscal 2006 were Rs.24,267.0 million (U.S.$545.6 million). We derived 34.1% of these revenues from sales in India, 16.4% from North America, 14.7% from Russia and other countries of the former Soviet Union, 17.8% from Europe and 17.0% from other countries. Our net income for fiscal 2006 was Rs.1,628.9 million (U.S.$36.62 million).

Our total revenues for the three months ended June 30, 2006 were Rs.14,049.4 million (U.S.$306.29 million). For the three months ended June 30, 2006, we received 34.6% of our revenues from North America (United States and Canada), 17.0% of our revenues from India, 10.4% of our revenues from Russia and other former Soviet Union countries, 23.1% of our revenues from Europe and 14.9% of our revenues from other countries. Our net income for the three months ended June 30, 2006 was Rs.1,397.6 million (U.S.$30.5 million).

Acquisition of betapharm group

During fiscal 2006, we acquired beta Holding Gmbh (betapharm) which, according to INSIGHT Health s NPI-Gx reports, is Germany s fourth largest generic pharmaceuticals company. The aggregate purchase price was 482.6 million (Rs.26,063.3 million) in cash. betapharm has a portfolio of 145 products and, according to INSIGHT Health s NPI-Gx reports, has been the fastest growing among the 10 largest generics companies in Germany (INSIGHT Health NPI-Gx over the past 5 years). In the last 12 months betapharm has launched over 10 new products in the market. As a result of this acquisition, the financials of betapharm have been consolidated with our generics segment effective as of March 3, 2006. Revenues from betapharm were Rs.704.9 million and Rs.1,997.6 million in fiscal 2006 (starting March 3, 2006) and for the three months ended June 30, 2006, respectively.

The acquisition of betapharm represented an excellent opportunity for us to acquire a sales and marketing business with a high-quality product portfolio in a favorable market. betapharm is a strong fit to our strategic initiative of becoming a mid-sized global pharmaceutical company with a strong presence in all key pharmaceutical markets.

betapharm provides us with a solid foundation for our entry into the German generics market, which is a market that has high barriers of entry. betapharm has a nationwide sales force which has strong and long-term relationships with a network of physicians, pharmacists and Statutory Health Insurance (SHI) funds. In the future, we anticipate using betapharm as a distribution platform for our products in Germany.

During the three months ended September 30, 2006, we have completed the final allocation of purchase price of beta Holding GmbH based on management s estimate of fair values and independent valuations of intangible assets. As a result of the final allocation, total intangibles increased from Rs.16,325.6 million as at

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March 31, 2006 to Rs.19,852.2 million as at September 30, 2006, goodwill decreased from Rs.14,958.8 million as at March 31, 2006 to Rs.12,848.4 as at September 30, 2006 and deferred tax liability, net increased from Rs.5,825.4 million as at March 31, 2006 to Rs.7,241.7 million as at September 30, 2006. As a result of the final allocation, total intangibles increased by Rs.3,526.6 million from Rs.16,325.6 million to Rs.19,852.2 million, with a consequential impact on deferred tax liability and goodwill. The adjustment to the values of intangibles, goodwill and deferred tax liability and revision to useful lives will not have any material impact on our results.

We have completed the process of integrating the financial management operations of betapharm into our financial management operations. We continue to engage in the integration of all other operational functions of betapharm into our operations.

Acquisition of Industrias Quimicas Falcon de Mexico

During fiscal 2006, we acquired Industrias Quimicas Falcon de Mexico (Falcon), one of Roche s manufacturing subsidiaries with facilities located at Cuernavaca, Mexico for a total purchase consideration of U.S.$61.2 million (Rs.2,773.1 million). As a result of this acquisition, the financials of Falcon have been consolidated with our custom pharmaceuticals services segment effective as of December 30, 2005. Revenues from the Falcon business were Rs.804 million and Rs.1,241.1 million in fiscal 2006 (starting December 30, 2005) and for the three months ended June 30, 2006, respectively.

Falcon was acquired with an intent to add steroid manufacturing capabilities and permit us to offer a full range of services in our custom pharmaceutical services business. Falcon is engaged in the manufacture and sale of APIs, intermediates and steroids and has a portfolio of 18 products.

In accordance with U.S. GAAP, we allocated the total purchase price of the acquisition of Falcon to net tangible assets, customer contracts and non-competition agreement. As a result of the Falcon acquisition, we will also incur additional depreciation and amortization expense over the useful lives of certain of the net tangible and intangible assets acquired in connection with the acquisition.

We have completed the process of integrating the financial management operations of Falcon into our financial management operations. We continue to engage in the integration of all other operational functions of Falcon into our operations.

Critical Accounting Policies

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

Accounting estimates

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

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

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

our future obligations under employee retirement and benefit plans;

allowances for doubtful accounts receivable;

inventory write-downs;

allowances for sales returns; and

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valuation allowance against deferred tax assets.

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

In accordance with applicable Indian laws, we provide a defined benefit retirement plan (Gratuity Plan) covering certain categories of employees. The Gratuity Plan provides a lump sum payment to vested employees at retirement or termination of employment, in an amount based on the respective employee s last drawn salary and the years of employment with us. Effective September 1, 1999, we established the Dr. Reddy s Laboratories Gratuity Fund, or the Gratuity Fund. Liabilities with regard to the Gratuity Plan are determined by an actuarial valuation, based upon which we make contributions to the Gratuity Fund. In calculating the expense and liability related to the plans, assumptions are made about the discount rate, expected rate of return on plan assets, withdrawal and mortality rates and rate of future compensation increases as determined by us, within certain guidelines. The assumptions used may differ materially from actual results, resulting in a probable significant impact to the amount of expense recorded by us.

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

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

Revenue recognition

Product sales

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

Persuasive evidence of an arrangement exists;

The price to the buyer is fixed and determinable; and

Collectibility of the sales price is reasonably assured.

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

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

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

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

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

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

Sales of generic products are recognized as revenue when the products are shipped and title and risk of loss passes on to the customers. Provisions for chargeback, rebates and medicaid payments are estimated and provided for in the year of sales. Such provisions are estimated based on average chargeback rates actually claimed over a period of time and average inventory holding by the wholesaler. A chargeback claim is a claim made by the wholesaler for the difference between the price at which the product is sold to customers and the price at which it is procured from us.

We account for sales returns in accordance with SFAS 48 by establishing an accrual in an amount equal to our estimate of sales recorded for which the related products are expected to be returned.

We deal in various products and operate in various markets and our estimate is determined primarily by our experience in these markets for the products. For returns of established products, we determine an estimate of the sales returns accrual primarily based on our historical experience regarding sales returns. Additionally other factors that we consider in our estimate of sales returns include levels of inventory in the distribution channel, estimated shelf life, product discontinuances, price changes of competitive products, introductions of generic products and introductions of competitive new products to the extent each of them has an impact on our business and markets. We consider all of these factors and adjust the accrual to reflect actual experience.

In respect of certain markets, we consider the level of inventory in the distribution channel and determine whether an adjustment to our sales return accrual is appropriate. For example, if the level of inventory in the distribution channel increases, we analyze the reasons for the increase and if the reasons indicate that sales returns will be larger than expected, we adjust the sales returns accrual. Further, the products and markets in which we operate have a rapid distribution cycle and therefore products are sold to the ultimate customer within a very short period of time. As a result, the impact of changes in levels of inventory in the distribution channel historically has not caused any material changes in our return estimates. Further, we have not had any significant product recalls/discontinuances within our

product portfolio, which could potentially require us to make material changes to our estimates.

With respect to new products that we introduce, they are either extensions of an existing line of products or in a general therapeutic category where we have historical experience. Our new product launches have

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

License fees

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

Service income

Income from services is recognized based on the services provided by the Company in accordance with the terms of the contract, as all the conditions under SAB 104 are met.

Stock Based Compensation

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

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

	Fiscal Year Ended March 31,			Three Months Ended June 30,
	2004	**2005**	**2006**	**2006**
Dividend yield	0.5%	0.5%	0.5%	0.5%
Expected life	42 - 78 months	12 - 78 months	12 - 78 months	12 - 78 months
Risk free interest rates	5.2 - 6.8%	4.5 - 6.7%	5.7 - 7.5%	4.5 - 7.5%

Volatility	45.7 - 50.7%	39.4 - 44.6%	23.4 - 36.9%	23.4 - 50.7%

At June 30, 2006, we had three stock-based employee compensation plans. Prior to April 1, 2003, we accounted for our plans under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. No stock-based employee compensation cost was reflected in previously reported results, as all options granted under those plans had an exercise price

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equal to the market value of the underlying common stock on the date of grant. During the first quarter of fiscal 2004, we adopted the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, for stock-based employee compensation. We have selected the retroactive method of adoption described in SFAS No. 148 Accounting for Stock Based Compensation Transition and Disclosure for all options granted after January 1, 1995. Consequently, for the years ended March 31, 2004, 2005 and 2006, an amount of Rs.122.2 million, Rs.144.0 million and Rs.162.2 million respectively, has been recorded as total employee stock based compensation expense.

During fiscal 2004, Aurigene Discovery Technologies Limited adopted two stock based employee compensation plans. We have accounted for these plans under SFAS 123, using the Black-Scholes option pricing model to determine the fair value of each option grant.

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

SFAS.No. 123(R) requires that an estimate of forfeitures be made when the awards are granted. While adopting SFAS 123(R), we have estimated the forfeiture of the outstanding unvested stock options as of April 1, 2006 and have recognized an income on account of cumulative effect adjustments for estimating forfeitures rather than actual forfeitures of Rs.14.8 million. For the three months ended June 30, 2006, Rs.31.03 million has been recorded as total employee stock based compensation expense.

Deferred Taxes

Deferred taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statement of operations in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefits the future realization of which is uncertain.

Functional Currency

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

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

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

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

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Income Taxes

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

We also assess the temporary differences resulting from differential treatment of certain items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are recognized in our consolidated financial statements. We also assess our deferred tax assets on an ongoing basis by assessing our valuation allowance we consider the future taxable incomes and the feasibility of tax planning initiatives. If we estimate that the deferred tax assets cannot be realized at the recorded value, a valuation allowance is created with a charge to the statement of income in the period in which such assessment is made.

Litigation

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

Operating results

Financial Data

The selected consolidated financial data presented below for fiscal year 2006 and the three months ended June 30, 2006 reflect the acquisition of Falcon and betapharm and therefore the results for fiscal year 2006 are not comparable to the results for prior fiscal years and periods.

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

	Fiscal Year Ended March 31,				Three Months Ended June 30,		
egment	**2004**	**2005**	**2006**	**2006**	**2005**	**2006**	**2006**
						(Unaudited)	
			(Rs. in millions, U.S.$ in thousands)				
ormulations	Rs. 7,507.5	Rs. 7,822.9	Rs. 9,925.9	U.S.$ 223,155.5	Rs. 2,578.4	Rs. 3,336.8	U.S.$ 72,745
ctive harmaceutical ngredients and ntermediates	7,628.5	6,944.5	8,238.0	185,208.1	1,909.7	2,300.8	50,159
Generics	4,337.5	3,577.4	4,055.8	91,181.7	878.2	6,737.2	146,876
	411.0	527.1	691.1	15,536.7	153.4	198.0	4,317

Diagnostics, critical care and biotechnology							
Drug discovery	288.4					25.3	551
Custom pharmaceuticals services	113.1	311.6	1,326.8	29,829.8	71.7	1,418.3	30,920
Others	105.9	47.5	29.4	660.3		33.0	719
Total revenues	Rs. 20,103.5	Rs. 19,519.4	Rs. 24,267.0	U.S.$ 545,572.1	Rs. 5,591.4	Rs. 14,049.4	U.S.$ 306,287

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

Segment	Fiscal Year Ended March 31, 2004	2005	2006	2006	Three Months Ended June 30, 2005	2006	2006
						(Unaudited)	
	(Rs. in millions, U.S.$ in thousands)						
Formulations	Rs. 2,577.7	Rs. 2,492.8	Rs. 3,084.1	U.S.$ 69,337.6	Rs. 755.7	Rs. 985.6	U.S.$ 21,487
Active pharmaceutical ingredients and intermediates	5,102.4	5,013.5	5,916.5	133,107.1	1,347.8	1,687.5	36,789
Generics	1,324.4	1,620.3	2,168.8	48,759.0	448.8	4,139.2	90,238
Diagnostics, critical care and biotechnology	206.9	176.5	235.9	5,302.8	74.1	79.1	1,724
Drug discovery						25.3	552
Custom pharmaceuticals services	57.6	82.6	999.4	22,469.3	36.4	999.1	21,781
Others	68.3	0.1	12.6	282.6	0.1	44.7	974
Total cost of revenues	Rs. 9,337.3	Rs. 9,385.8	Rs. 12,417.3	U.S.$ 279,168	Rs. 2,662.9	Rs. 7,960.5	U.S.$ 173,545

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

Segment	Fiscal Year Ended March 31, 2004	2005	2006	2006	Three Months Ended June 30, 2005	2006	2006
						(Unaudited)	
	(Rs. in millions, U.S.$ in thousands)						
Formulations	Rs. 4,929.8	Rs. 5,330.1	Rs. 6,841.8	U.S.$ 153,817.8	Rs. 1,822.7	Rs. 2,351.2	U.S.$ 51,258
Active pharmaceutical ingredients and intermediates	2,526.1	1,931.0	2,321.5	52,191.0	561.9	613.3	13,371
Generics	3,013.1	1,957.1	1,887.0	42,422.8	429.4	2,598.0	56,638
Diagnostics, critical care and biotechnology	204.1	350.6	455.2	10,233.9	79.3	118.9	2,592
Drug discovery		288.4					
Custom pharmaceuticals services	55.5	229.0	327.4	7,360.5	35.3	419.2	9,139
Others	37.6	47.4	16.8	377.6		(11.7)	(255)

Total gross profit	Rs. 10,766.2	Rs. 10,133.6	Rs. 11,849.7	U.S.$ 266,403.6	Rs. 2,928.6	Rs. 6,088.9	U.S.$ 132,743	

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

	Percentage of Total Revenue Fiscal Year Ended March 31,			Percentage Increase (Decrease)		Percentage of Total Revenue Three Months Ended June 30,		Percentage Increase (Decrease) June 2005 to June 2006
	2004	2005	2006	2004 to 2005	2005 to 2006	2005	2006	
Income Statement Data:								
Revenues by segment:								
Formulations	37.3	40.1	40.9	4.2	26.9	46.1	23.7	29.4
Active pharmaceutical ingredients and intermediates	37.9	35.6	33.9	(9.0)	18.6	34.2	16.4	20.5
Generics	21.6	18.3	16.7	(17.5)	13.4	15.7	48.0	667.2
Diagnostics, critical care and biotechnology	2.0	2.7	2.8	28.2	31.1	2.7	1.4	29.1
Drug discovery		1.5			(100.0)	0.0	0.2	
Custom pharmaceutical services	0.6	1.6	5.5	175.5	325.8	1.3	10.1	1,879.0
Other	0.6	0.2	0.2	(55.2)	(38.1)	0.0	0.2	
Total revenues	100.0	100.0	100.0	(2.9)	24.3	100.0	100.0	151.3

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	Percentage of Total Revenue Fiscal Year Ended March 31,			Percentage Increase (Decrease)		Percentage of Total Revenue Three Months Ended June 30,		Percentage Increase (Decrease) June 2005 to June 2006
	2004	2005	2006	2004 to 2005	2005 to 2006	2005	2006	
Cost of revenues by segment:								
Formulations	34.3	31.9	31.1	(3.3)	23.7	29.3	29.5	30.4
Active pharmaceutical ingredients and intermediates	66.9	72.2	71.8	(1.7)	18.0	70.6	73.3	25.2
Generics	30.5	45.3	53.5	22.3	33.8	51.1	61.4	822.2
Diagnostics, critical care and biotechnology	50.4	33.5	34.1	(14.7)	33.6	48.3	40.0	6.9
Drug discovery							100.0	
Custom pharmaceutical services	50.9	26.5	75.3	43.4	1110.6	50.9	70.4	2,643.1
Other	64.4		42.8	(100.0)			135.4	
Total cost of revenues	46.4	48.1	51.2	0.5	32.3	47.6	56.7	198.9
Gross profit by segment:								
Formulations	65.7	68.1	68.9	8.1	28.4	70.7	70.5	29.0
Active pharmaceutical ingredients and intermediates	33.1	27.8	28.2	(23.6)	20.2	29.4	26.7	9.1
Generics	69.5	54.7	46.5	(35.0)	(3.6)	48.9	38.6	505.1
Diagnostics, critical care and biotechnology	49.6	66.5	65.9	71.8	29.8	51.7	60.0	49.9
Drug discovery		100.0			(100.0)	0.0	0.0	
Custom pharmaceutical services	49.1	73.5	24.7	312.3	43.0	49.2	29.6	1,089.3
Other	35.6	100.0	57.2	26.0	(64.6)	0.0	(35.3)	
Total gross profit	53.5	51.8	48.8	(5.9)	16.9	52.4	43.3	107.9
Operating expenses:								
Selling, general and administrative expenses	32.5	34.7	33.1	3.5	18.5	34.9	23.8	71.3
Research and development expenses	9.9	14.4	8.9	40.8	(23.2)	9.2	3.8	3.5
Amortization expenses	1.9	1.8	1.7	(8.6)	20.0	1.7	2.8	305.7
Foreign exchange (gain)/loss	(1.4)	2.5	0.5		(74.2)	1.2	0.5	13.3
Other operating expense/(income)	0.4	0.0	(1.3)	(92.8)		0.7	(0.5)	(288.4)

Total operating expenses	43.4	53.4	42.9	19.6	(0.1)	47.7	30.4	60.2
Operating income/(loss)	10.2	(1.5)	5.9			4.7	12.9	594.0
Equity in loss of affiliates	(0.2)	(0.3)	(0.4)	31.0	51.9	(0.3)	(0.1)	5.8
Other (expense)/income, net	2.7	2.3	2.2	(15.2)	17.5	3.1	(1.4)	(213.9)
Income before income taxes and minority interest	12.6	0.5	7.8	(95.8)	1663.4	7.5	11.4	282.3
Income tax benefit/(expenses)	(0.3)	0.5	(1.1)			(1.3)	(1.5)	186.2
Minority interest		0.1		195.5	(100.8)	0.0	0.0	(53.7)
Net income	12.3	1.1	6.7	(91.5)	671.1	6.2	9.9	302.4

Three Months Ended June 30, 2006 Compared to Three Months Ended June 30, 2005

Revenues

Total revenues increased by 151.3% to Rs.14,049.4 million for the three months ended June 30, 2006, as compared to Rs.5,591.4 million for the three months ended June 30, 2005, due to an increase in revenues across all business segments, revenues from sales of authorized generics as well as contributions from betapharm and Falcon. Excluding revenues from Falcon and betapharm, revenues increased by 93.3% to Rs.10,810.7 million. betapharm contributed Rs.1,997.6 million and Falcon contributed Rs.1,241.1 million to our revenues for the three months ended June 30, 2006. For the three months ended June 30, 2006, we received 34.6% of our revenues from North America (United States and Canada), 17.0% of our revenues from India, 10.4% of our revenues from Russia and other former Soviet Union countries, 23.1% of our revenues from Europe and 14.8% of our revenues from other countries.

Revenues from sales in North America increased to Rs.4,856.5 million for the three months ended June 30, 2006, as compared to Rs.661.1 million for the three months ended June 30, 2005, due to an increase

in revenues in our generics segment, our active pharmaceutical ingredients and intermediates (API) segment and our custom pharmaceutical services (CPS) segment. Revenues from sales in Russia and other former Soviet Union countries increased by 45.8% to Rs.1,464.0 million for the three months ended June 30, 2006, as compared to Rs.1,004.0 million for the three months ended June 30, 2005. The increase was driven by growth in Russia, Ukraine and Kazakhstan. Revenues from sales in Europe increased to Rs.3,247.0 million for the three months ended June 30, 2006, as compared to Rs.1,032.9 million for the three months ended June 30, 2005, due to growth in our generics segment as well as our API segment. Revenues from sales in India increased by 14.8% to Rs.2,392.5 million for the three months ended June 30, 2006, as compared to Rs.2,084.8 million for the three months ended June 30, 2005, due to an increase of revenues in our formulations segment as well as our API segment.

Formulations. For the three months ended June 30, 2006, we received 23.7% of our total revenues from the formulations segment, as compared to 46.1% for the three months ended June 30, 2005. Revenues in this segment increased by 29.4% to Rs.3,336.8 million for the three months ended June 30, 2006, as compared to Rs.2,578.4 million for the three months ended June 30, 2005.

Revenues from sales of formulations in India constituted 48.4% of our total formulations revenues for the three months ended June 30, 2006, as compared to 55.0% for the three months ended June 30, 2005. Revenues from sales of formulations in India increased by 14.0% to Rs.1,615.1 million for the three months ended June 30, 2006, as compared to Rs.1,417.2 million for the three months ended June 30, 2005. The increase in revenues was on account of an increase in sales volumes of Nise, our brand of nimesulide, Omez, our brand of omeprazole, Reclimet, our brand of gliclazide and metformin, and Stamlo Beta, our brand of amlodipine and atenolol. New products launched in the three months ended June 30, 2006 accounted for Rs.35.9 million of revenues.

Revenues from sales of formulations outside India increased by 48.3% to Rs.1,721.7 million for the three months ended June 30, 2006, as compared to Rs.1,161.2 million for the three months ended June 30, 2005. Revenues from sales of formulations in Russia accounted for 63.6% of our formulation revenues outside India for the three months ended June 30, 2006, as compared to 64.9% for the three months ended June 30, 2005. Revenues from sales of formulations in Russia increased by 45.2% to Rs.1,094.4 million for the three months ended June 30, 2006, as compared to Rs.753.8 million for the three months ended June 30, 2005. The increase was on account of an increase in sales volume of our key brands such as Nise, our brand of nimesulide, Ketorol, our brand of ketorolac and Omez, our brand of omeprazole on account of marketing activities and increase in sales to hospitals. Revenues from sales to other former Soviet Union countries increased by 55.5% to Rs.320.2 million for the three months ended June 30, 2006 as compared to Rs.205.9 million for the three months ended June 30, 2005, primarily driven by an increase in revenues in Ukraine, Kazakhstan and Uzbekistan and partially offset by a decrease in sales volume in Belarus.

Active Pharmaceutical Ingredients and Intermediates. For the three months ended June 30, 2006, we received 16.4% of our total revenues from our API segment, as compared to 34.2% for the three months ended June 30, 2005. Revenues in this segment increased by 20.5% to Rs.2,300.8 million for the three months ended June 30, 2006, as compared to Rs.1,909.7 million for the three months ended June 30, 2005.

During the three months ended June 30, 2006, revenues from sales in India accounted for 28.3% of our revenues from this segment, as compared to 31.8% for the three months ended June 30, 2005. Revenues from sales in India increased by 5.6% to Rs.660.8 million for the three months ended June 30, 2006, as compared to Rs.625.5 million for the three months ended June 30, 2005. This increase was primarily due to an increase in sales of ciprofloxacin, ranitidine and terbinafine due to combination of price and volume growth.

Revenues from sales outside India increased by 25.1% to Rs.1,675.7 million for the three months ended June 30, 2006, as compared to Rs.1,339.2 million for the three months ended June 30, 2005. Revenues from sales in other markets increased by 27.3% to Rs.816.1 million for the three months ended June 30, 2006, as compared to

Rs.641.3 million for the three months ended June 30, 2005, primarily due to growth in sales volumes in the key markets of Israel, Syria, South Korea and Peru. Revenues from sales in Europe increased by 21.2% to Rs.439.1 million for the three months ended June 30, 2006, as compared to Rs.362.3 million for the three months ended June 30, 2005. The increase in revenues was mainly on account of the growth of sales

volumes of our key products sumatriptan, doxazosin and naproxen sodium. Revenues from sales in North America (United States and Canada) increased by 25.3% to Rs.420.4 million for the three months ended June 30, 2006, as compared to Rs.335.6 million for the three months ended June 30, 2005. This growth was largely driven by an increase in sales of development products, which are small quantities of products sold to customers for use by such customers for the development of finished dosage products.

Generics. For the three months ended June 30, 2006, we received 48.0% of our total revenues from this segment, as compared to 15.7% for the three months ended June 30, 2005. Revenues increased to Rs.6,737.2 million for the three months ended June 30, 2006, as compared to Rs.878.2 million for the three months ended June 30, 2005. Revenues in Europe increased to Rs.2,432.9 million for the three months ended June 30, 2006, as compared to Rs.571.3 million for the three months ended June 30, 2005. Revenues on account of the acquisition of betapharm and sales of products acquired from Laboratories Litaphar, S.A., or Litaphar, in Spain together contributed Rs.2,006.8 million. The prices of our key products amlopidine maleate and omeprazole declined in the United Kingdom, resulting in a 25.4% decline in revenues to Rs.426.1 million for the three months ended June 30, 2006 from Rs.571.3 million for the three months ended June 30, 2005. Revenues in North America (United States and Canada) increased to Rs.4,304.1 million for the three months ended June 30, 2006, as compared to Rs.306.8 million for the three months ended June 30, 2005. This growth was primarily driven by the launch of three key products during the quarter. Simvastatin and finasteride, which were both launched as authorized generic versions of Merck & Co., Inc. s, or Merck s, Zocor® and Proscar® respectively, together contributed net revenues of Rs.3,353.0 million. Fexofenadine, which was launched at risk in April, contributed Rs.503.0 million in revenues. Excluding revenues from authorized generics and fexofenadine, revenues in the generics segment increased by 42.5% to Rs.437.1 million.

Critical Care and Biotechnology. For the three months ended June 30, 2006, we received 1.4% of our total revenues from this segment as compared to 2.7% for the three months ended June 30, 2005. Revenues in this segment increased by 29.1% to Rs.198.0 million for the three months ended June 30, 2006, as compared to Rs.153.4 million for the three months ended June 30, 2005. Revenues in this segment increased primarily due to an increase in sales volumes in our critical care division by Rs.25.5 million driven by an increase in sales volumes in India due to increased sales of our products Cytogem and Dacotin, and an increase in sales in our biotechnology division by Rs.19.0 million.

Custom Pharmaceutical Services. Revenues from this segment increased to Rs.1,418.3 million for the three months ended June 30, 2006 from Rs.71.7 million for the three months ended June 30, 2005. Revenues on account of the Falcon acquisition were Rs.1,241.1 million for the three months ended June 30, 2006. Excluding revenues from Falcon, revenues increased to Rs.177.2 million for the three months ended June 30, 2006 from Rs.71.7 million for the three months ended June 30, 2005. This revenue increase was driven by growth in the customer base in this segment.

Others. For the three months ended June 30, 2006, other revenues consisted of service income from collaborative discovery research services of Rs.33.0 million as compared to no revenues for the three months ended June 30, 2005.

Cost of revenues

Cost of revenues increased by Rs.5,297.6 million to Rs.7,960.5 million for the three months ended June 30, 2006, as compared to Rs.2,662.9 million for the three months ended June 30, 2005. Cost of revenues as a percentage of total revenues was 56.7% for the three months ended June 30, 2006, as compared to 47.6% for the three months ended June 30, 2005. Excluding revenues and cost of revenues from betapharm and Falcon, cost of revenues increased to Rs.6,134.9 million, which was 56.7% of total revenues for the three months ended June 30, 2006, as compared to 47.6% for the three months ended June 30, 2005.

Formulations. Cost of revenues in this segment was 29.5% of formulations revenues for the three months ended June 30, 2006, as compared to 29.3% of this segment s revenues for the three months ended June 30, 2005. Cost of

revenues in absolute terms increased by 30.4% to Rs.985.5 million for the three months ended June 30, 2006, as compared to Rs.755.7 million for the three months ended June 30, 2005. The marginal increase in cost of revenues as a percentage of formulations revenues was primarily on account of an

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increase in raw material costs, partially offset by the positive impact of higher overall sales and a higher proportion of sales outside India. Sales outside India generally have higher prices and higher margins as compared to sales within India.

Active Pharmaceutical Ingredients and Intermediates. Cost of revenues in this segment increased to 73.3% of this segment s revenues for the three months ended June 30, 2006, as compared to 70.6% of this segment s revenues for the three months ended June 30, 2005. Cost of revenues increased by 25.2% to Rs.1,687.5 million for the three months ended June 30, 2006, as compared to Rs.1,347.8 million for the three months ended June 30, 2005. The increase in cost of revenues as a percentage of revenues was due to a relatively higher proportion of sales from lower margin products compared to three months ended June 30, 2005.

Generics. Cost of revenues in this segment was 61.4% of this segment s revenues for the three months ended June 30, 2006, as compared to 51.1% for the three months ended June 30, 2005. Cost of revenues increased to Rs.4,139.2 million for the three months ended June 30, 2006, as compared to Rs.448.8 million for the three months ended June 30, 2005. As a percentage of revenues, cost of revenue increased primarily on account of revenues from authorized generic product sales, which accounted for 49.7% of total revenues from this segment and which earn gross margins significantly below average gross margins for this segment, as well as a decline in the prices of omeprazole and amlodipine maleate in the U.K.

Critical Care and Biotechnology. Cost of revenues in this segment decreased to 40.0% of this segment s revenues for the three months ended June 30, 2006, as compared to 48.3% for the three months ended June 30, 2005. The decrease in cost of revenues as a percentage of revenues was on account of a decline in the costs of raw materials.

Custom Pharmaceutical Services. Cost of revenues in this segment increased to 70.4% of this segment s revenue for the three months ended June 30, 2006, as compared to 50.9% for the three months ended June 30, 2005. This increase was primarily on account of an increase in sales of lower margin products and a decrease in sales of higher margin products. Cost of revenues increased to Rs.999.1 million for the three months ended June 30, 2006 from Rs.36.4 million for the three months ended June 30, 2005. Cost of revenues at Falcon for the three months ended June 30, 2006 was Rs.877.5 million. Excluding Falcon, cost of revenues increased to Rs.121.6 million for the three months ended June 30, 2006 from Rs.36.4 million for the three months ended June 30, 2005.

Gross profit

As a result of the trends described in Revenues and Cost of revenues above, our gross profit increased by 107.9% to Rs.6,088.9 million for the three months ended June 30, 2006, from Rs.2,928.6 million during the three months ended June 30, 2005. Excluding profit from betapharm and Falcon, gross profit increased by 59.7% to Rs.4,675.8 million for fiscal 2006. Gross margin, including acquisitions, was 43.3% for the three months ended June 30, 2006, as compared to 52.4% for the three months ended June 30, 2005.

Gross margin of the formulations segment was at 70.5% for the three months ended June 30, 2006, as compared to 70.7% for the three months ended June 30, 2005. The gross margin in our active pharmaceutical ingredients and intermediates segment decreased to 26.7% for the three months ended June 30, 2006, as compared to 29.4% for the three months ended June 30, 2005. The gross margin for our generics segment decreased to 38.6% for the three months ended June 30, 2006, as compared to 48.9% for the three months ended June 30, 2005. The gross margin for our critical care and biotechnology segment increased to 60.0% for the three months ended June 30, 2006, as compared to 51.7% for the three months ended June 30, 2005. The gross margin for our custom pharmaceutical services segment decreased to 29.6% for the three months ended June 30, 2006, as compared to 49.2% for the three months ended June 30, 2005.

Selling, general and administrative expenses

Selling, general and administrative expenses as a percentage of total revenues were 23.8% for the three months ended June 30, 2006, as compared to 34.9% for the three months ended June 30, 2005. Selling,

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general and administrative expenses increased by 71.3% to Rs.3,346.1 million for the three months ended June 30, 2006, as compared to Rs.1,953.8 million for the three months ended June 30, 2005. Selling, general and administrative expenses related to betapharm and Falcon, and the products acquired from Litaphar, accounted for Rs.1,150.6 million of these expenses. Excluding expenses related to betapharm, Falcon and the products acquired from Litaphar, selling, general and administrative expenses increased by 12% to Rs.2,195.5 million. This increase was largely due to an increase in marketing expenses and employee costs. Marketing expenses increased by 27.0% to Rs.869.6 million for the three months ended June 30, 2006 from Rs.682.4 million for the three months ended June 30, 2005 primarily due to an increase in shipping costs in our generics and formulations segments, on account of higher sales, as well as an increase in selling expenses in our formulations segment due to higher marketing activities. Employee expenses increased by 8% to Rs.662.5 million for the three months ended June 30, 2006, from Rs.615.4 million for the three months ended June 30, 2005, primarily due to an increase in the total number of our employees.

Research and development expenses, net

Research and development expenses increased by 3.5% to Rs.532.9 million for the three months ended June 30, 2006, as compared to Rs.514.7 million for the three months ended June 30, 2005. As a percentage of total revenues, research and development expenses were 3.8% for the three months ended June 30, 2006, as compared to 9.2% for the three months ended June 30, 2005. Under the terms of our research and development partnership agreement with I-VEN Pharma Capital Limited or I-VEN, we received U.S.$22.5 million in March 2005 to be applied to research and development costs in our generics segment, of which U.S.$3.4 million was recognized as a reduction in research and development expense for the three months ended June 30, 2006, as compared to U.S.$1.7 million recognized for the three months ended June 30, 2005. Further, during the three months ended June 30, 2006, our research and development expenses in our drug discovery segment were lower on account of the reimbursement of expenses incurred by us on the development of New Chemical Entities or NCEs, assigned to Perlecan Pharma Private Limited or Perlecan, in terms of our research and development arrangement entered into during the year ended March 31, 2006. Excluding the effect of the above arrangements from I-VEN and Perlecan, expenses increased primarily on account of expenses incurred towards product development in our generics segment as well as an increase in clinical trials expenses in our discovery segment.

Amortization expenses

Amortization expenses increased to Rs.387.8 million for the three months ended June 30, 2006, as compared to Rs.95.6 million for the three months ended June 30, 2005. This increase was primarily on account of amortization expenses of Rs.317.9 million associated with the intangibles acquired in the betapharm and Falcon acquisitions.

Foreign exchange loss

Foreign exchange loss was Rs.74.5 million for the three months ended June 30, 2006, as compared to a lower loss of Rs.65.7 million for the three months ended June 30, 2005. This was on account of higher currency translation loss and higher mark to market loss on our outstanding derivative contracts for the three months ended June 30, 2006 due to higher volatility in major international currencies. The rupee depreciated by Rs.1.43 during the three months ended June 30, 2006, as compared to appreciation of Rs.0.19 for the three months ended June 30, 2005.

Other operating income/expense, net

Other operating income was at Rs.69.5 million for the three months ended June 30, 2006, as compared to an expense of Rs.36.9 million for the three months ended June 30, 2005. Other operating income/expense, net for the three months ended June 30, 2006 includes a portion of consideration related to the sale of our finished dosage facility at Goa in the amount of Rs.63.0 million, which was contingent upon certain transition activities being performed by us.

On completion of all of our obligations under the agreement, the final portion of the sale consideration was recognized during the three months ended June 30, 2006.

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Operating income

As a result of the foregoing, our operating income increased to Rs.1,817.2 million for the three months ended June 30, 2006, as compared to Rs.261.8 million for the three months ended June 30, 2005.

Other expense/income, net

For the three months ended June 30, 2006 our other expense, net of other income was Rs.196.7 million, as compared to other income, net of expenses of Rs.172.6 million for the three months ended June 30, 2005. This change was on account of the fact that for the three months ended June 30, 2006, we recorded net interest expense of Rs.253.5 million on borrowed funds as a result of increased borrowings for acquisition of betapharm as compared to the three months ended June 30, 2005, while in the three months ended June 30, 2005 we recorded net interest income of Rs.152.7 million.

Equity in loss of affiliates

Equity in loss of affiliates was Rs.15.3 million for the three months ended June 30, 2006, compared to Rs.14.5 million for the three months ended June 30, 2005. The marginal increase in loss was on account of higher losses at Perlecan which was partially offset due to lower losses in Kunshan Rotam Reddy Pharmaceutical Co. Limited.

Income before income taxes and minority interest

As a result of the foregoing, income before income taxes and minority interest increased to Rs.1,605.2 million for the three months ended June 30, 2006, as compared to Rs.419.9 million for the three months ended June 30, 2005.

Income tax

We recorded an income tax expense of Rs.207.5 million for the three months ended June 30, 2006, as compared to an expense of Rs.72.5 million for the three months ended June 30, 2005. The increase in income tax expense in absolute value was on account of an increase in taxable profits during the current quarter as compared to the three months ended June 30, 2005. The effective tax rate decreased to 12.9% for the three months ended June 30, 2006 from 17.3% for the three months ended June 30, 2005. This reduction in the effective tax rate was primarily on account of utilization of carry forward losses in subsidiaries due to profits generated from operations. A full valuation allowance was created on the deferred tax asset on such carry forward losses of the subsidiaries due to a history of past losses. Therefore, while sufficient profits were generated from operations during the three months ended June 30, 2006 there was relatively lower taxable income thereby resulting in a lower effective tax rate.

Minority interest

Minority interest was at Rs.0.05 million for the three months ended June 30, 2006, as compared to Rs.0.1 million for the three months ended June 30, 2005. This represents our share of profits in the results of Dr. Reddy s Laboratories (Proprietary) Limited, our subsidiary in South Africa.

Net income

As a result of the above, our net income increased to Rs.1,397.6 million for the three months ended June 30, 2006, as compared to Rs.347.3 million for the three months ended June 30, 2005.

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

Revenues

Total revenues increased by 24.3% to Rs.24,267.0 million in fiscal 2006, as compared to Rs.19,519.4 million in fiscal 2005, primarily due to an increase in revenues in our formulations segment and our active

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

Revenues from sales to Russia and other former Soviet Union countries increased by 27.9% to Rs.3,559.5 million in fiscal 2006, as compared to Rs.2,782.2 million in fiscal 2005. The increase was primarily due to an increase in sales of our major brands such as Nise, our brand of nimesulide, Keterol, our brand of ketorolac tromethamine, Ciprolet, our brand of ciprofloxacin, and Omez, our brand of omeprazole. Revenues from sales in India increased by 23.6% to Rs.8,272.5 million in fiscal 2006, as compared to Rs.6,693.0 million in fiscal 2005, primarily due to an increase in revenues in our formulations and active pharmaceutical ingredients and intermediates segments. Revenues from sales to Europe increased by 50.8% to Rs.4,326.3 million in fiscal 2006, as compared to Rs.2,868.2 million in fiscal 2005, primarily as a result of an increase in revenues from sales in our generics segment and active pharmaceutical ingredients and intermediates segment, as well as new revenues contributed from betapharm. Excluding betapharm revenues, revenues from sales to Europe increased by 26.3% to Rs.3,621.4 million in fiscal 2006. Revenues from sales to North America decreased by 8.4% to Rs.3,983.9 million in fiscal 2006, as compared to Rs.4,349.2 million in fiscal 2005, primarily due to a decrease in sales in our generics segment and active pharmaceutical ingredients and intermediates segment.

Formulations. In fiscal 2006, we received 40.9% of our total revenues from the formulations segment, as compared to 40.1% in fiscal 2005. Revenues in this segment increased by 26.9% to Rs.9,926.0 million in fiscal 2006, as compared to Rs.7,822.9 million in fiscal 2005.

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

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

Active Pharmaceutical Ingredients and Intermediates. In fiscal 2006, we received 33.9% of our total revenues from this segment as compared to 35.6% in fiscal 2005. Revenues in this segment increased by 18.6% to Rs.8,238.1 million in fiscal 2006, as compared to Rs.6,944.5 million in fiscal 2005.

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

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

Generics. In fiscal 2006, we received 16.7% of our total revenues from this segment, as compared to 18.3% in fiscal 2005. This segment s revenues, including revenues contributed by betapharm (starting March 3, 2006), increased by 13.4% to Rs.4,055.8 million in fiscal 2006, as compared to Rs.3,577.4 million in fiscal 2005. Excluding revenues contributed by betapharm, this segment s revenues declined by 6.3% to Rs.3,350.8 million. Revenues from sales in North America (United States and Canada) decreased by 26.9% to Rs.1,630.6 million in fiscal 2006, as compared to Rs.2,230.1 million in fiscal 2005. This was primarily on account of a decrease in prices of tizanidine and fluoxetine due to increased competition. Together, these products contributed Rs.437.8 million in revenue in fiscal 2006, as compared to Rs.1,134.7 million in fiscal 2005. This decline was partially offset by the revenues from new product launches of glimpiride and zonisamide as well as an increase in sales of ibuprofen and naproxen. The benefit of high pricing in omeprazole and amlodipine was more than offset by a decline in revenues from sales of key products in North America. Revenues from sales in Europe increased by 80.8% to Rs.2,421.5 million in fiscal 2006, as compared to Rs.1,339.6 million in fiscal 2005. Revenues contributed by betapharm (starting March 3, 2006) of Rs.704.9 million have been included in this segment s fiscal 2006 revenues. Excluding revenues contributed by betapharm, revenues from sales in Europe increased by 28.1% to Rs.1,716.6 million in fiscal 2006 primarily due to growth of sales volume and higher pricing of omeprazole and amlodipine maleate in the U.K. market.

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

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

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

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

Others. Revenues from our other businesses (consisting of service income in Aurigene Discovery Technologies Limited) were Rs.29.4 million in fiscal 2006 as compared to Rs.47.4 million in fiscal 2005.

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Cost of revenues

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

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

Active Pharmaceutical Ingredients and Intermediates. Cost of revenues in this segment decreased to 71.8% of this segment s revenues in fiscal 2006, as compared to 72.2% of the segment s revenues in fiscal 2005. Cost of revenues increased by 18.0% to Rs.5,916.6 million in fiscal 2006, as compared to Rs.5,013.6 million in fiscal 2005. The decrease in cost of revenues as a percentage of revenues was primarily due to an overall increase in sales.

Generics. Cost of revenues, including revenues from betapharm, was 53.5% of this segment s revenues in fiscal 2006, as compared to 45.3% in fiscal 2005. Cost of revenues increased by 33.8% to Rs.2,168.8 million in fiscal 2006, as compared to Rs.1,620.4 million in fiscal 2005. The increase in cost of revenues as a percentage of revenues in this segment was primarily as a result of a decline in average price realization in our US generics businesses due to continued pricing pressure.

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

Custom Pharmaceutical Services. Cost of revenues in this segment increased from Rs.82.6 million in fiscal 2005 to Rs.999.4 million in fiscal 2006 primarily as a result of the acquisition of the Falcon business, which is included within this segment. The cost of revenue as a percentage of revenue was at 75.3% as compared to 26.5% in the previous year. This increase was primarily a result of increased sales of API products having lower margins.

Gross profit

As a result of the trends described in Revenues and Cost of revenues above, our gross profit, including profit from betapharm and the acquired Falcon business, increased by 16.9% to Rs.11,849.7 million for fiscal 2006 from Rs.10,133.5 million during fiscal 2005. Excluding profit from betapharm and the acquired Falcon business, gross profit increased by 12.3% to Rs.11,384.4 million for fiscal 2006. Gross margin percentage was 48.8% in fiscal 2006, as compared to 51.9% in fiscal 2005.

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

Selling, general and administrative expenses

Selling, general and administrative expenses, including expenses of betapharm and Falcon, increased by 18.5% to Rs.8,028.9 million in fiscal 2006, as compared to Rs.6,774.6 million in fiscal 2005. Excluding expenses of betapharm and the acquired Falcon business, selling, general and administrative expenses

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increased by 13.4% to Rs.7,687.4 million for fiscal 2006. Selling, general and administrative expenses, including expenses of betapharm and the acquired Falcon business, as a percentage of revenues were 33.1% for fiscal 2006 as compared to 34.7% for fiscal 2005.

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

Research and development expenses

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

Amortization expenses

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

Foreign exchange gain/loss

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

Other operating expense/(income), net

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

Operating income

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

Other income, net

For fiscal 2006 our other income was Rs.533.6 million, as compared to Rs.454.2 million for fiscal 2005. This includes net interest income of Rs.418.8 million in fiscal 2006 as compared to Rs.271.9 million in fiscal

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2005. The increase in other income was primarily a result of an increase in interest income earned on investment of surplus funds.

Equity in loss of affiliates

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

Income before income taxes and minority interest

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

Income tax expense

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

Minority interest

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

Net income

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

Fiscal Year Ended March 31, 2005 Compared to Fiscal Year Ended March 31, 2004

Pursuant to comments from the SEC staff, we have reclassified certain amounts for the fiscal year ended March 31, 2005 and this year on year discussion reflects those reclassified amounts.

Revenues

Total revenues decreased by 2.9% to Rs.19,519.4 million in fiscal 2005, as compared to Rs.20,103.5 million in fiscal 2004, primarily due to a decrease in revenues in our generics and active pharmaceutical ingredients and intermediates segments. In fiscal 2005, we received 22.3% of our revenues from the United States and Canada, 34.3% from India, 14.2% from Russia and other former Soviet Union countries, 14.7% from Europe and 14.5% from other countries.

Revenues from sales in Russia and other former Soviet Union countries increased by 21.7% to Rs.2,782.2 million in fiscal 2005, as compared to Rs.2,285.8 million in fiscal 2004. The increase was primarily due to an increase in sales of our major brands of formulations such as Nise, our brand of nimesulide, Keterol, our brand of ketorolac tromethamine, and Omez, our brand of omeprazole. Revenues from sales in Europe increased by 2.9% to Rs.2,868.2 million in fiscal 2005, as compared to Rs.2,788.6 million in fiscal 2004,

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primarily as a result of an increase in revenues from our generics segment largely offset by a decrease in revenues from our active pharmaceutical ingredients and intermediates segment. Revenues from sales in North America decreased by 18.2% to Rs.4,349.2 million in fiscal 2005, as compared to Rs.5,319.2 million in fiscal 2004, primarily due to a decrease in revenues in our generics segment. Revenues from sales in India decreased by 6.3% to Rs.6,693.0 million in fiscal 2005, as compared to Rs.7,143.8 million in fiscal 2004, primarily due to a decrease in revenues in our formulations and active pharmaceutical ingredients and intermediates segments. We made allowances for sales returns of Rs.105.2 million and Rs.169.5 million in fiscal 2005 and fiscal 2004, respectively.

Formulations. In fiscal 2005, we received 40.1% of our total revenues from the formulations segment, as compared to 37.4% in fiscal 2004. Revenues in this segment increased by 4.2% to Rs.7,822.9 million in fiscal 2005, as compared to Rs.7,507.5 million in fiscal 2004.

Revenues from sales in India constituted 55.7% of our total formulations revenues in fiscal 2005, as compared to 63.0% in fiscal 2004. Revenues from sales of formulations in India decreased by 7.8% to Rs.4,360.2 million in fiscal 2005, as compared to Rs.4,729.4 million in fiscal 2004. New products launched in India in fiscal 2005 accounted for 6% of the total revenues. These additional revenues were more than offset by a decrease in revenues from sales of our key brands (such as Omez, our brand of omeprazole, and Nise, our brand of nimesulide), as well as inventory reduction by stockists, retailers and other trade channels in March 2005 due to uncertainty relating to the implementation of the Value Added Tax (VAT) system in India.

Revenues from sales of formulations outside India increased by 24.6% to Rs.3,462.7 million in fiscal 2005, as compared to Rs.2,778.2 million in fiscal 2004. Revenues from sales of formulations in Russia accounted for 60.9% of our formulation revenues outside India in fiscal 2005, as compared to 64.1% in fiscal 2004. Revenues from sales of formulations in Russia increased by 18.3% to Rs.2,107.2 million in fiscal 2005, as compared to Rs.1,781.8 million in fiscal 2004. The increase was driven by increased revenues from sales of our key brands such as Nise, our brand of nimesulide, Ketorol, our brand of ketorolac tromethamine, Omez, our brand of omeprazole, and Ciprolet, our brand of ciprofloxacin. Revenues from other former Soviet Union countries increased by 31.2% to Rs.593.3 million for fiscal 2005, as compared to Rs.452.3 million for fiscal 2004, primarily driven by an increase in revenues in Ukraine, Kazakhstan and Belarus. Revenues from the rest of the world increased by 40.4% to Rs.613.1 million in fiscal 2005, as compared to Rs.436.6 million in fiscal 2004. This increase was primarily due to higher revenues from sales in South Africa, Venezuela and new markets such as United Arab Emirates.

Active Pharmaceutical Ingredients and Intermediates. In fiscal 2005, we received 35.6% of our total revenues from this segment, as compared to 38.0% in fiscal 2004. Revenues in this segment decreased by 9.0% to Rs.6,944.5 million in fiscal 2005, as compared to Rs.7,628.5 million in fiscal 2004.

During fiscal 2005, revenues from sales in India accounted for 28.4% of our revenues from this segment, as compared to 27.7% in fiscal 2004. Revenues from sales in India decreased by 6.8% to Rs.1,972.1 million in fiscal 2005, as compared to Rs.2,115.1 million in fiscal 2004. This decrease was primarily due to a decrease in sales volumes of ciprofloxacin, sparfloxacin and gatifloxacin.

Revenues from sales outside India decreased by 9.8% to Rs.4,972.4 million in fiscal 2005, as compared to Rs.5,513.4 million in fiscal 2004. Revenues from sales in Europe decreased by 32.9% to Rs.1,091.1 million in fiscal 2005, as compared to Rs.1,626.9 million in fiscal 2004 primarily due to a decrease in revenues from ramipril. Ramipril, launched in Europe in fiscal 2004, accounted for Rs.753.3 million in revenue in fiscal 2005 compared to Rs.1,237.5 million in fiscal 2004. This decline was primarily due to a reduction in price due to additional competition. Revenues from sales in the United States and Canada decreased by 2.8% to Rs.1,849.0 million in fiscal 2005, as compared to Rs.1,902.9 million in fiscal 2004, primarily due to additional competition for our existing products.

Generics. In fiscal 2005, we received 18.3% of our total revenues from this segment, as compared to 21.6% in fiscal 2004. Revenues decreased by 17.5% to Rs.3,577.4 million in fiscal 2005, as compared to Rs.4,337.5 million in fiscal 2004. Revenues from sales in the United States and Canada decreased by 34.4% to

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Rs.2,230.1 million in fiscal 2005, as compared to Rs.3,398.6 million in fiscal 2004. This was primarily on account of increased competition with respect to sales of tizanidine and fluoxetine. Together these two products accounted for Rs.1,134.7 million in revenue in fiscal 2005 as compared to Rs.2,402.8 million in fiscal 2004. This decline was partially offset by revenues from new product launches of ciprofloxacin (launched in June 2004) and citalopram (launched in October 2004). Revenues in Europe increased by 44.1% to Rs.1,339.6 million in fiscal 2005, as compared to Rs.929.9 million in fiscal 2004, primarily due to growth in sales volumes of omeprazole and amlodipine maleate (launched in March 2004).

Critical Care and Biotechnology. We received 2.7% of our total revenues from this segment in fiscal 2005, as compared to 2.0% in fiscal 2004. Revenues in this segment increased to Rs.527.1 million in fiscal 2005, as compared to Rs.411.0 million in fiscal 2004.

Revenues from our critical care division increased by Rs.82.7 million, primarily due to an increase in domestic revenues from sales of key products of Dacotin, our brand of oxaliplatin, Docetere, our brand of docetaxel, and Mitotax, our brand of paclitaxel. Revenues from our biotechnology division increased by Rs.42.6 million, primarily due to sales volume growth of Grastim, our brand of filgrastim.

Drug Discovery. Revenues from our drug discovery segment were at Rs.288.4 million for fiscal 2005, as compared to no revenue for fiscal 2004. In September 2001, we received Rs.235.6 million as an upfront license fee from Novartis Pharma A.G. in connection with our out-licensing of DRF 4158 to Novartis. During fiscal 2005, on expiration of the terms of the agreement with Novartis, we accounted for the upfront license fee as income, which was deferred in the fiscal year ended March 31, 2002 as the up-front license fee did not represent the culmination of a separate earning process, the up-front license fee had been deferred to be recognized in accordance with our accounting policy proportionately upon the receipt of stated milestones. During fiscal 2005, we recognized an amount of Rs.52.8 million towards DRF 2593 pursuant to the discontinuation of our agreement with Novo Nordisk.

Others. Revenues from our custom pharmaceutical services segment were Rs.311.6 million in fiscal 2005, as compared to Rs.113.1 million in fiscal 2004. The increase is primarily on account of increases in both our customer base and our product portfolio.

Cost of revenues

Total cost of revenues increased by Rs.48.5 million to Rs.9,385.8 million for fiscal 2005, as compared to Rs.9,337.3 million for fiscal 2004. Cost of revenues as a percentage of total revenues was 48.1% for fiscal 2005, as compared to 46.5% for fiscal 2004.

Formulations. Cost of revenues in this segment decreased by 3.3% to Rs.2,492.8 million in fiscal 2005, as compared to Rs.2,577.7 million in fiscal 2004. Cost of revenues in this segment was 31.9% of formulations revenues for fiscal 2005, as compared to 34.3% of formulations revenues for fiscal 2004. The decrease in cost of revenues as a percentage of revenues was primarily due to a higher proportion of revenues from outside India, which generate relatively higher gross margins.

Active Pharmaceutical Ingredients and Intermediates. Cost of revenues in this segment decreased by 1.7% to Rs.5,013.6 million in fiscal 2005, as compared to Rs.5,102.4 million in fiscal 2004. Cost of revenues in this segment has increased to 72.2% of this segment s revenues in fiscal 2005, as compared to 66.9% of the segment s revenues in fiscal 2004. The increase in cost of revenues as a percentage of total revenue was primarily due to a decrease in revenues from sales of ramipril in Europe, which generates a higher gross margin compared to the segment s average gross margin, as well as a higher proportion of revenues from India, which generate lower gross margins, all as compared to fiscal 2004.

Generics. Cost of revenues in this segment increased by 22.3% to Rs.1,620.4 million in fiscal 2005, as compared to Rs.1,324.5 million in fiscal 2004. Cost of revenues was 45.3% of this segment s revenues in fiscal 2005, as compared to 30.5% in fiscal 2004. The cost of revenues as a percentage of revenues increased primarily due to a decline in revenues from sales of our key products fluoxetine and tizanidine, which generate a higher gross margin compared to segment s average gross margins.

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Critical Care and Biotechnology. Cost of revenues in this segment decreased by 14.7% to Rs.176.5 million in fiscal 2005, as compared to Rs.207.0 million in fiscal 2004. Cost of revenues in this segment decreased to 33.5% of this segment s revenues in fiscal 2005, as compared to 50.4% in fiscal 2004. The decrease in cost of revenues is primarily due to a decrease in input costs of certain existing products.

Gross profit and gross margin

As a result of the trends described in Revenues and Cost of revenues above, our gross profit decreased by 5.9% to Rs.10,133.5 million for fiscal 2005 from Rs.10,766.3 million during fiscal 2004. Gross margin was 51.9% in fiscal 2005, as compared to 53.5% in fiscal 2004.

The gross margin for our formulations segment increased to 68.1% in fiscal 2005, as compared to 65.7% in fiscal 2004. The gross margin for our active pharmaceutical ingredients and intermediates segment decreased to 27.8% in fiscal 2005, as compared to 33.1% in fiscal 2004. The gross margin for our generics segment decreased to 54.7% in fiscal 2005, as compared to 69.5% in fiscal 2004. The gross margin for our critical care and biotechnology segment was 66.5% in fiscal 2005, as compared to 49.7% in fiscal 2004.

Selling, general and administrative expenses

Selling, general and administrative expenses increased by 3.5% to Rs.6,774.6 million in fiscal 2005, as compared to Rs.6,542.5 million in fiscal 2004. Selling, general and administrative expenditures as a percentage of total revenues were 34.7% for fiscal 2005 as compared to 32.7% for fiscal 2004. This increase is largely due to an increase in employee costs, which was largely offset by a decrease in legal and professional expenses. Employee costs increased by 21.7% to Rs.2,062.5 million in fiscal 2005, as compared to Rs.1,697.0 million in fiscal 2004, primarily due to annual salary increases and market corrections as well as an increase in the number of employees in our international offices. Legal and professional expenses decreased by 24.1% to Rs.995.0 million in fiscal 2005, as compared to Rs.1,311.0 million in fiscal 2004, primarily due to lower legal and consultancy activity during fiscal 2005.

Research and development expenses

Research and development costs increased by 40.8% to Rs.2,803.3 million for fiscal 2005, as compared to Rs.1,991.6 million for fiscal 2004. As a percentage of revenue, research and development expenditure accounted for 14.4% of total revenue in fiscal 2005, as compared to 9.9% in fiscal 2004. The increase was primarily on account of a charge of Rs.277.0 million recorded against research and development in-process associated with our acquisition of Trigenesis Therapeutics, Inc., international clinical trials in our drug discovery segment and an increase in research and development activity in our active pharmaceutical ingredients and intermediates, formulations, generics and biotechnology businesses. During the year, we entered into a research and development partnership agreement with I-VEN Pharma Capital Limited (I-VEN) for the development and commercialization of ANDAs to be filed in the U.S. in 2004-05 and 2005-06. Under the terms of the agreement, we received U.S.$22.5 million in March 2005 of which U.S.$2.2 million was recorded as a reduction in research and development expense in fiscal 2005.

Amortization expenses

Amortization expenses decreased by 8.6% to Rs.350.0 million in fiscal 2005, as compared to Rs.382.9 million in fiscal 2004. The decrease was primarily on account of higher amortization of our acquired brands and other intangibles in fiscal 2004.

Foreign exchange gain/loss

Foreign exchange loss was Rs.488.8 million for fiscal 2005 as compared to a gain of Rs.282.4 million for fiscal 2004. The loss was mainly on account of losses resulting from marking to market of our forward derivative contracts partially offset by gains realized on maturity of these forward derivative contracts.

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Other operating expense/(income)

Other operating expense amounted to Rs. 6.0 million in fiscal 2005 as compared to Rs. 83.2 million in fiscal 2004. Loss in previous year was primarily on account of sale of fixed assets in Pondicherry, India in our formulations business and certain other assets.

Operating income

As a result of the foregoing, our operating loss was at Rs.289.1 million in fiscal 2005, as compared to an operating gain of Rs.2,048.5 million in fiscal 2004. Operating loss as a percentage of total revenues was 1.5% in fiscal 2005, as compared to an operating gain of 10.1% in fiscal 2004.

Other (expense)/income, net

For fiscal 2005 our other income was Rs.454.2 million, as compared to Rs.535.9 million for fiscal 2004. This includes net interest income of Rs.272 million in fiscal 2005 as compared to Rs.406.8 million in fiscal 2004. This decrease in net interest income was partially offset by an increase in income from sale of investments by Rs.90.4 million.

Equity in loss of affiliates

Equity in loss of affiliates increased by Rs.13.7 million to Rs.58.1 million for fiscal 2005 from Rs.44.4 million for fiscal 2004, primarily due to an increase in loss pick up in Kunshan Rotam Reddy Pharmaceuticals, which is accounted under the equity investee method.

Income before income taxes and minority interest

As a result of the foregoing, income before income taxes and minority interest decreased by 95.8% to Rs.107.0 million in fiscal 2005, as compared to Rs.2,540.3 million in fiscal 2004. As a percentage of revenues, income before income taxes and minority interest was 0.5% of revenues in fiscal 2005, as compared to 12.6% of revenues in fiscal 2004.

Income tax expense

We recorded a net income tax credit of Rs.94.3 million for fiscal 2005, as compared to an expense of Rs.69.2 million for fiscal 2004. The decrease was primarily on account of a decline in overall profits; higher research and development expenditures, which are eligible for weighted tax deductions partially offset by an increase in the enacted tax rate in India from 35.875% to 36.5925%.

Minority interest

Loss attributable to minority interest for fiscal 2005 was Rs.9.9 million, as compared to Rs.3.4 million for fiscal 2004. This represents the minority interest in the losses of Dr. Reddy s Laboratories (Proprietary) Limited, our 60% subsidiary in South Africa.

Net income

As a result of the above, our net income decreased by 91.5% to Rs.211.2 million in fiscal 2005, as compared to Rs.2,474.4 million in fiscal 2004. Net income as a percentage of total revenues decreased to 1.1% in fiscal 2005 from 12.3% in fiscal 2004.

Recent Accounting Pronouncements

In July 2006, the FASB issued Interpretation (FIN) No. 48, Uncertainty in Income Taxes. FIN No. 48 applies to all tax positions within the scope of Statement 109 and clarifies when and how to recognize tax benefits in the financial statements with a two-step approach of recognition and measurement. Fin No. 48 is effective for fiscal years beginning after December 15, 2006. FIN No. 48 also requires the enterprise to make

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explicit disclosures about uncertainties in their income tax positions, including a detailed roll forward of tax benefits taken that do not qualify for financial statement recognition. We are currently evaluating the impact of this pronouncement and will adopt the guidelines stated in FIN No. 48 for our fiscal year commencing on April 1, 2007.

In September 2006, the Financial Accounting Standard Board (FASB) issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 provides guidance on determination of fair value, and lays down the fair value hierarchy to classify the source of information used in fair value measurements. We are currently evaluating the impact of this pronouncement and will adopt the guidelines stated in SFAS 157 for our fiscal year commencing on April 1, 2007

In 2006, the Financial Accounting Standards Board issued SFAS No. 158 *Employer s accounting for Defined Benefit Pension and Other Postretirement Plans.* New Statement 158 requires a company to recognize on balance sheets the funded status of pension and other postretirement benefit plans-as of March 31, 2007. We are required to recognize actuarial gains and losses, prior service cost, and any remaining transition amounts from the initial application of Statements 87 and 106 when recognizing a plan s funded status, with the offset to accumulated other comprehensive income. Statement 158 will also require fiscal-year-end measurements of plan assets and benefit obligations. The new Statement amends Statements 87, 88, 106, and 132R, but retains most of their measurement and disclosure guidance and will not change the amounts recognized in the income statement as net periodic benefit cost. We do not believe that adoption of SFAS 158 will have a material impact on our financial statements.

Liquidity and capital resources

Liquidity

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

Our principal sources of short-term liquidity are internally generated funds and short-term borrowings, which we believe are sufficient to meet our working capital requirements and currently anticipated capital expenditures over the near term. As part of our growth strategy, we continue to review opportunities to acquire companies, complementary technologies or product rights. To fund the acquisition of betapharm in Germany, we borrowed 400 million under a bank loan facility with a maturity period of five years. If our future acquisitions involve significant cash payments, rather than the issuance of shares, we may need to further borrow from banks or raise additional funds from the debt or equity markets.

As of March 31, 2006 we anticipated expenditures of approximately U.S.$120.0 million over the next two fiscal years in connection with the addition of manufacturing capacity in and expansion of infrastructure requirements for our business.

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

	Fiscal Year Ended March 31,				Three Months Ended June 30,		
	2004	2005	2006	2006	2005	2006	2006
						(Unaudited)	
	(Rs. in million, U.S.$ in thousands)						
Net cash provided by/(used in):							
Operating activities	Rs. 3,999.2	Rs. 2,291.6	Rs. 1,643.1	U.S.$ 36,941	Rs. 202.2	Rs. (757.1)	U.S.$ (16,505
Investing activities	(6,506.1)	632.9	(34,524.4)	(776,179)	(224.3)	482.8	10,526
Financing activities	(376.1)	1,931.3	27,210.9	611,757	1,134.2	289.9	6,320
Effect of exchange rate changes on cash	(14.2)	55.8	95.1	2,138	(36.0)	(291.0)	(6,345
Net increase/(decrease) in cash and cash equivalents	Rs. (2,897.2)	Rs. 4,911.6	Rs. (5,575.2)	U.S.$ (125,342)	Rs. 1,076.1	Rs. (275.4)	U.S.$ (6,004

Cash Flow From Operating Activities

Net cash provided by operating activities decreased from Rs.2,291.6 million in fiscal 2005 to Rs.1,643.1 million in fiscal 2006. Net cash provided by operating activities consisted primarily of net income including adjustments for non-cash items and changes in working capital.

As net income increased from Rs.211.0 million in fiscal 2005 to Rs.1,629.0 million in fiscal 2006, there was also an increase in operating assets and liabilities of Rs.1,873.3 million in fiscal 2006 as compared to a decrease in operating assets and liabilities of Rs.113.0 million in fiscal 2005. The increase in operating assets and liabilities in fiscal 2006 was primarily due to an increase in accounts receivable by Rs.781.0 million due to increased sales, an increase in inventories by Rs.1,851.0 million, in line with our increased sales and anticipated product launches, and the effect of an increase in operating assets and liabilities subsequent to the acquisition of the Falcon business and betapharm.

While net cash provided by operating activities was Rs.202.2 million for the three months ended June 30, 2005, there has been a net cash outflow from operating activities of Rs.757.1 million for the three months ended June 30, 2006. While we had a higher net income of Rs.1,397.6 million during the quarter ended June 30, 2006 as compared to Rs.347.3 million for the three months ended June 30, 2005, the shift in the net cash flow from operations has been due to a significant movement in our operating assets and liabilities.

During the three months ended June 30, 2006, the higher cash outflows due to increase in operating assets and liabilities is primarily on account of an increase in accounts receivable by Rs.4,648.5 million and inventories by Rs.1,790.7 million, which has been partially offset due to movement in accounts payable by Rs.3,768.9 million The increase in the accounts receivables, inventories and accounts payable is primarily on account of overall increase in the operations of the Company primarily being in North America. Operations in North America increased primarily on account of the launch of three key products during the quarter simvastatin, finasteride and fexofenadine. The increase is also attributable to the sales of betapharm and Falcon business which were acquired by the Company during the previous year ended March 31, 2006.

Cash Flow From Investing Activities

Cash outflow from investing activities was Rs.34,524.4 million for the fiscal year ended March 31, 2006, primarily due to cash paid for the acquisition of betapharm and the Falcon business, which was approximately Rs.27,269 million, and restricted cash of Rs.6,017 million in connection with borrowing in relation to the betapharm acquisition and increased capital expenditures of Rs.1,873 million.

Cash generated by investing activities was Rs.482.8 million for the three months ended June 30, 2006. This was primarily on account of the release of term deposits amounting Rs.1,584.4 million, pledged against a short term loan, which was repaid during the period . This was partially off-set due to additional expenditure on property, plant and equipment amounting to Rs.887.3 million and acquisition of certain intangible assets.

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Cash Flows From Financing Activities

Net cash provided by financing activities for fiscal 2006 was Rs.27,210.9 million primarily due to short-term borrowings from banks of Rs.6,322.0 million and long term borrowings from banks incurred in connection with the acquisition of betapharm of Rs.21,598.30 million.

Net cash provided by financing activities for the three months ended June 30, 2006 was Rs.289.9 million, primarily due to short-term borrowings in foreign currency from banks amounting to Rs.291.4 million to meet working capital requirements.

Principal obligations

The following table summarizes our principal debt obligations outstanding as of June 30, 2006:

Debt	**Principal Amount (Rs. in millions, U.S.$ in thousands)**		**Interest Rate**
Working capital loans	Rs. 9,590.1	U.S$ 209,070	LIBOR + 50 65bps for FC denominated loans and 10.25% for INR borrowings
Long term loan	23,698.1[(1)]	516,637	EURIBOR + 150 Bps
Total	Rs. 33,288.2	U.S$ 725,707	

(1) Includes loan of Rs.23.6 million received at a subsidized rate of interest of 2% from Indian Renewable Energy Development Agency Limited promoting use of alternative sources of energy.

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

The maturities of our short-term borrowings from banks vary from one month to approximately six months. Our objective in determining the borrowing maturity is to ensure a balance between flexibility, cost and the continuing availability of funds.

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

As of March 31, 2005, 2006 and June 30, 2006, we had committed to spend approximately Rs.192.2 million, Rs.744.0 million and Rs.1,276.3 million, respectively, under agreements to purchase property and equipment and other capital commitments. These amounts are net of capital advances paid in respect of such purchases and we anticipate funding them from internally generated funds.

Research and Development

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

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

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

Generics, where our research and development activities are directed at the development of product formulations, process validation, bioequivalency testing and other data needed to prepare a growing list of drugs that are equivalent to numerous brand name products whose patents and regulatory exclusivity

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periods have expired or are nearing expiration in the regulated markets of the United States and Europe.

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

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

Metabolic disorders

Cardiovascular disorders

Bacterial infections

Inflammation

Cancer

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

In fiscal 2004, 2005, 2006 and the three months ended June 30, 2006, we expended Rs.1,991.6 million, Rs.2,803.3 million, Rs.2,153.0 million and Rs.532.9 million, respectively, on research and development activities.

Patents, Trademarks and Licenses

We have filed and been issued numerous patents in our principal areas of operations: drug discovery, active pharmaceutical ingredients and intermediates and generics. We expect to continue to file patent applications seeking to protect our innovations and novel processes in several countries, including the United States. Any existing or future patents issued to or licensed by us may not provide us with any competitive advantages for our products or may even be challenged, invalidated or circumvented by our competitors. In addition, such patent rights may not prevent our competitors from developing, using or commercializing products that are similar or functionally equivalent to our products. As of June 30, 2006, we have filed over 536 trademarks with the Registrar of Trademarks in India. We also have made application for registration for non-U.S. trademarks in other countries in which we do business. We market several products under licenses in several countries where we operate.

Trend information

Formulations. According to the Operations Research Group International Medical Statistics (ORG IMS) Annual Report 2004, the Indian retail pharmaceutical market, valued at Rs.230 billion for the year ending December 31, 2005, grew by 9%. New product introductions, as well as increases in the prices without corresponding increase in sales volumes of our older products, positively contributed to our growth in 2005. Much of this growth was driven by the contribution from new products launched in the 24 month period ending on December 31, 2005. In fiscal 2005, a new

era in India began with the introduction of the product patent regime. This motivated multinational corporations to bring their research molecules into India and Indian companies to focus on developing brands and exploring in-licensing and marketing alliances. In fiscal 2006, new product introductions accounted for 2.0% of our revenues in India. In fiscal 2006, the growth of our revenues in India was above the industry average as reported by the ORG IMS Annual Report 2005. We

expect to continue the momentum in growth during fiscal 2007, driven by a combination of key brand performance and new product introductions during fiscal 2004, 2005 and 2006.

We expect that the Indian Ministry of Chemicals and Fertilisers, in order to control the prices of drugs in India, will implement a ceiling on sales margins for drugs not previously subject to price control. Under the proposal:

- for drugs sold under generic names for more than Rs.3 per tablet, the wholesalers margin cannot exceed 35% of the manufacturers selling price and the retailers margin cannot exceed 15% of the manufacturers selling price;

- for drugs sold under brand names for more than Rs.3 per tablet, the wholesalers margin cannot exceed 10% of the manufacturers selling price and the retailers margin cannot exceed 20% of the manufacturers selling price; and

- drugs priced at Rs.3 per tablet or less would be exempt from price controls.

A committee consisting of representatives from industry and the Indian Ministry of Chemicals and Fertilizers has been formed to consider the implementation of these sales margin controls as well as other cost containment proposals, including public-private partnerships to help families living below the poverty line and concessional pricing for government procurement. The committee is also ascertaining whether the pharmaceutical industry is prepared to implement voluntary price cuts. The committee is expected to examine whether the existing cost-based price control with respect to 74 bulk drugs and formulations containing them can be extended to other medicines in the National List of Essential Medicines or if any alternative scheme such as a ceiling price based on existing prices can be implemented.

The competitive environment in the emerging markets outside India is changing with most countries moving towards recognizing product patents. This has the effect of reducing the window of opportunity for new product launches. In order to compete effectively in such a challenging environment, we are focusing on both our key therapeutic categories on a global basis and niche therapeutic segments. As part of our global business development program, we will continue to explore in-licensing and other opportunities to strengthen our product pipeline. Among our international markets, Russia is our single largest market. In fiscal 2006, the Russian pharmaceutical market grew by 30% driven by a strong economy and introduction of the DLO (Dopolnitelnoye lekarstvennoye obespechenoye) program, pursuant to which the Russian government purchases drugs for free distribution to low income individuals. Our total revenue growth rate in fiscal 2006 was approximately 26%, as compared to a growth rate of 30% for the pharmaceutical industry as a whole as reported by Pharmexpert, December 2005. We intend to promote growth in fiscal 2007 through a combination of sales and marketing initiatives targeted towards physicians, hospital segments and pharmacies. We are also focusing on driving growth in other countries in the former Soviet Union, South Africa and China.

Active Pharmaceutical Ingredients and Intermediates. In this segment, we are focused on increasing our level of customer engagement in key markets globally to market additional products from our product portfolio to key customers. We are also focused on identifying unique product opportunities in key markets and protecting them through patenting strategies. As of June 30, 2006, we had a pipeline of 83 drug master filings (DMFs) in the United States and 45 DMFs in Europe. With patent expiries in several markets in the next few years, we intend to promote growth in fiscal 2007 and beyond by leveraging our portfolio of markets and products. The success of our existing API products in our key markets is contingent upon the extent of competition in the generics market, and we anticipate that such competition will continue to be significant.

Generics. In this segment, we are focused on the regulated markets of North America and Europe. In the United States, our key product launches anticipated for fiscal 2007 include fexofenadine, the generic version of Allegra®

(launched in April 2006), simvastatin, the generic version of Zocor® (Launched on June 23, 2006), finasteride 5 mg, the generic version of Proscar® (launched on June 19, 2006), and ondansetron, the generic version of Zofran®. Apotex Inc., a Canadian generic drug maker, has recently filed a lawsuit against the U.S. FDA seeking to bar the U.S. FDA from granting exclusive rights to any company to sell generic versions of Zofran®. See Business Litigation for a discussion of litigation related to fexofenadine.

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In January 2006, we entered into an agreement with Merck & Co. allowing us to distribute and sell the authorized generic versions of two of their products, finasteride and simvastatin (sold by Merck under the brand names Zocor® and Proscar®), provided that some other company obtains 180-day exclusivity after the expiration of the patents for either product. Subsequently, the patents for both of these products expired and other companies obtained 180-day exclusivity. Accordingly, we launched sales of these products on June 19, 2006 and June 23, 2006, respectively. For the three months ended June 30, 2006, the combined revenues from these two products were Rs.3,353 million. We intend to expand our opportunity with respect to finasteride and simvastatin over the next few years by adding solid dosages forms as well as alternate dosage forms of each product through alliances to complement our internal product development effort.

We also intend to expand our commercial portfolio through unique acquisition opportunities. For instance, in March 2006, we acquired for a total consideration of Rs.122.7 million trademarks rights to three off-patent products with annual sales of U.S.$5 million, along with all the physical inventories of the products, from PDL Biopharma, Inc. (PDL). As a result of the acquisition, we acquired an opportunity to sell these products using their existing brand names though our generic sales and marketing network.

We are also expanding our presence in Canada by leveraging the infrastructure and assets that we have established for the U.S. market. The success of our existing products is contingent upon the extent of competition in the generics market, which we anticipate will continue to be significant. As of June 30, 2006, we had 55 ANDAs pending approval with the U.S. FDA. This included 31 patent challenges. The launch of these products is contingent upon the successful outcome of litigation related to such products.

In the United Kingdom, we do not anticipate any significant product launches in fiscal 2007.

In Germany, the revenues and net income of betapharm, which we acquired in March 2006, will be reflected in our fiscal 2007 results and are reflected in our results for the three months ended June 30, 2006. The German government passed the Economic Optimization of the Pharmaceutical Care Act, which became effective May 1, 2006. As a response to this legislation, some of the leading pharmaceutical companies in Germany announced aggressive price cuts and we responded with an average price cut of approximately 24% on those of our products subject to the new regulations. Our performance in Germany for the three months ended June 30, 2006 was negatively impacted as a result of these changes. In addition to the reforms which were introduced with effect from May 1, 2006, a new list of products for which co-payment fee is waived came into effect in Germany from November 1, 2006. The co-payment waiver is applicable only if the companies reduce their prices between 30% to 50% below the referene price. betapharm has reduced the prices of its portfolio covered by this list by an average of 4%.

Critical Care and Biotechnology. We expect that we will continue to market our existing products and develop additional products. The success of our existing products is contingent upon the extent of competition in this segment. In fiscal 2007, we expect to continue with our investments in building the infrastructure and capabilities for the development and launch of biogenerics in the less regulated markets in the next few years. Longer-term, we intend to target launches in the regulated markets as and when the regulatory pathway becomes clear in these markets.

Custom Pharmaceutical Services. In fiscal 2007, we expect to benefit from the full year impact of the acquisition of the Falcon business. Excluding the impact of the acquisition of the Falcon business, we expect the base business to grow further as we continue to expand the portfolio of relationships and projects with large pharmaceutical companies and emerging pharmaceutical and biotechnology companies.

Drug Discovery. Currently, we have a pipeline of 9 NCEs of which 5 are in clinical development and 4 are in pre-clinical development. Four of such NCEs have been assigned to Perlecan Pharma and one NCE each is under a co-development arrangement with Rheoscience A/S and ClinTec International. As we make progress in advancing our

pipeline through various stages of clinical development, we are building capabilities in drug development. We believe this will help to enhance the value of our NCE assets. We expect to further complement our internal research and development efforts by pursing strategic partnerships and alliances in our key focus areas.

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Specialty. We are currently in the research and development phase of our specialty pharmaceuticals business, which may become a separate segment at some point in the future. Following the acquisition of Trigenesis Therapeutics Inc. in May 2004, we commenced the pursuit of the development of dermatology products targeted towards specialty prescription dermatology segment, which products will have patent protected franchises.

Off-Balance Sheet Arrangements

Guarantees.

In fiscal 2006, in order to enable our affiliate Kunshan Rotam Reddy Pharmaceutical Co. Limited, or KRRP to secure a credit facility of Rs.32.0 million from Citibank, N.A., we issued a corporate guarantee amounting to Rs.45.0 million in favor of Citibank N.A. The guarantee is required to be renewed every year and our liability may arise in case of non-payment or non-performance of other obligations of KRRP under its credit facility agreement with Citibank N.A. As of June 30, 2006, it is not probable that we will be required to make payments under the guarantee. Accordingly, no liability has been accrued for a loss related to our obligation under this guarantee arrangement.

Tabular Disclosure of Contractual Obligations

The following summarizes our contractual obligations as of June 30, 2006 and the effect such obligations are expected to have on our liquidity and cash flows in future periods.

		Payments Due by Period			
	Total	Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years
		(Rs. in millions)			
Financial contractual obligations					
Operating lease obligations	Rs. 537.6	87.4	205.6	129.6	115.0
Capital lease obligations	259.5	16.1	42.8	42.8	157.8
Current portion	16.1	16.1			
Non-current portion	243.4		42.8	42.8	157.8
Purchase obligations					
Agreements to purchase property and equipment and other capital commitments[(1)]	1,276.3	1,276.3			
Borrowings from banks	9,590.1	9,590.1			
Long term debt	23,438.7	1,957.2	7,816.8	13,664.7	
Current portion	1,957.2	1,957.2			
Non-current portion	21,481.5		7,816.8	13,664.7	
Total contractual obligations	35,102.2	12,927.1	8,065.2	13,837.1	272.8

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

Quantitative and Qualitative Disclosures about Market risk

Market Risk

Market risk is the risk of loss of future earnings or to fair values or to future cash flows that may result from a change in the price of a financial instrument. The value of a financial instrument may change as a result of changes in the interest rates, foreign currency exchange rates and other market changes that affect market risk sensitive instruments. Market risk is attributable to all market risk sensitive financial instruments including foreign currency receivables and payables.

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Our exposure to market risk is a function of our investment and borrowing activities and our revenue generating and operating activities in foreign currency. The objective of market risk management is to avoid excessive exposure in our foreign currency revenues and costs.

We are exposed to market risk primarily related to foreign exchange rate risk, interest rate risk and the market value of our investments. We actively monitor these exposures. To manage the volatility relating to these exposures, we enter into a variety of derivative financial instruments to reduce, where it is deemed appropriate to do so, fluctuations in earnings and cash flows associated with changes in interest rates and foreign currency rates and to enhance the yield on the investment. We only sell existing assets in transactions and future transactions (in the case of anticipatory hedges), which we reasonably expect we will have in the future based on past experience. Our portfolio is only for hedging purpose.

Foreign Exchange Rate Risk

We use the Indian rupee as our reporting currency and we are therefore exposed to foreign exchange movements, primarily in U.S. dollars, Euros, Pounds sterling, Russian rubles, Brazilian real and Asian currencies. Consequently, we enter into various contracts, which change in value as foreign exchange rates change, to preserve the value of assets, commitments, liabilities and anticipated transactions. We use forward contracts and foreign currency option contracts to hedge firm and anticipated net revenues in foreign currencies.

A significant portion of our revenues are in U.S. dollars while a significant portion of our costs are in Indian rupees. The exchange rate between Indian rupees and U.S. dollars has fluctuated significantly in recent years and may continue to fluctuate in the future. Appreciation of Indian rupees against U.S. dollars can adversely affect our results of operations.

We purchase forward foreign exchange contracts and options to mitigate the risk of changes in foreign exchange rates on accounts receivable and deposits. The forward contracts typically mature between one and six months. The Indian market for U.S. dollar forward contract is well traded up to 12 months. The counter parties for our exchange contracts are banks and counter party risk is minimal. Although we believe that these contracts are effective as hedges from an economic perspective, they do not qualify for hedge accounting under SFAS No. 133, as amended. Any derivative that is either not designated as a hedge, or is so designated but is ineffective pursuant to SFAS No. 133, is marked to market with resultant differences being recognized in the consolidated income statement.

The following table sets forth sell U.S. dollars/Indian rupees foreign currency forward contracts held by us as of March 31, 2006 by maturity month of the contracts:

Description	Apr-06	May-06	June-06	July-06	Aug-06	Total
Contracts outstanding (U.S.$ million)	40	30	20	5	10	105
Average contractual exchange rate (U.S.$/Rs.)	44.4569	44.192	44.9405	44.5775	44.9713	

The following table sets forth buy U.S. dollars/Indian rupees foreign currency forward contracts held by us as of March 31, 2006 by maturity month of the contracts:

Description	Apr-06	May-06	June-06	Total

Contracts Outstanding (U.S.$ million)	49.5	25	5	79.5
Average Contractual Exchange Rate (U.S.$/Rs.)	44.8722	46.5119	46.45	

The following table sets forth sell Euro/U.S. dollars foreign currency forward contracts held by us as of March 31, 2006 by maturity month of the contracts:

Description	**June-06**
Contracts Outstanding (million)	36
Average Contractual Exchange Rate (/U.S.$)	1.22134

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As of March 31, 2006, the spot exchange rate was Rs.44.615 per U.S. dollar. For each of the U.S. dollars/Indian rupees and Euro/U.S. dollars options, the strike price depends on the spot exchange rate on the date of expiration of the option.

Increase/(decrease) in fair value of forward contracts and options has been recorded in the consolidated income statement in the foreign exchange (gain)/loss line item.

Sensitivity analysis of exchange rate risk

A Re.1 decrease/increase in the spot rate for exchange of Indian rupees with U.S. dollars would result in approximately Rs.25.5 million decrease/increase in the fair value of our short U.S. dollars/Indian rupees currency forward contracts outstanding as of March 31, 2006.

A U.S.$0.01 decrease/increase in the spot rate for exchange of U.S. dollars with Euro would result in approximately Rs.16.2 million decrease/increase in the fair value of our short Euro/U.S.$ currency forward contracts outstanding as of March 31, 2006.

Commodity Rate Risk

Our exposure to market risk with respect to commodity prices primarily arises from the fact that we are a purchaser and seller of active pharmaceutical ingredients and the components for such active pharmaceutical ingredients. These are commodity products whose prices can fluctuate sharply over short periods of time. The prices of our raw materials generally fluctuate in line with commodity cycles, though the prices of raw materials used in our active pharmaceutical ingredients business are generally more volatile. Raw material expense forms the largest portion of our operating expenses. We evaluate and manage our commodity price risk exposure through our operating procedures and sourcing policies.

We do not use any derivative financial instruments or futures contracts to hedge our exposure to fluctuations in commodity prices.

Interest Rate Risk

As of March 31, 2006 we had a loan of 400 million at an interest rate of 1-month Euribor plus 150 basis points. This exposes us to risk of changes in interest rates, particularly Euribor. Our investments in bank fixed deposits and short-term liquid mutual funds do not expose us to significant interest rate risk.

		Amount of Long Term Loans as at March 31,		
		2006	**2005**	**2004**
Rupee Term Loans*	Rs.	25.1 million	Rs.31.1 million	Rs.183.7 million
Foreign Currency Loans		400 million		

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

Interest Rate Profile. An interest rate profile of long-term debt is given below:

	For the Fiscal Year Ended March 31,		
	2006	**2005**	**2004**
Foreign Currency Loans	1-month Euribor + 150 bps		
Rupee Term Loans*	2%	2%	2%

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

As of March 31, 2006, we have not entered into any derivative financial instruments to hedge our interest rate risk.

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Maturity Profile.

A maturity profile of rupee term loans outstanding is as follows:

Maturing in Year Ending March 31,	Rupee Term Loans (Rs. in thousands)	Foreign Currency Loans (Euro in thousands)
2007	5,920	16,667
2008	5,920	66,667
2009	5,920	66,666
2010	5,920	116,667
Thereafter	1,465	133,333
	25,145	400,000

Our major market risks of foreign exchange, interest rate and counter party risk are managed centrally by our Group Treasury department, which evaluates and exercises independent control over the entire process of market risk management. The activities of this department include management of cash resources, implementing hedging strategies for foreign currency exposures, and borrowing strategies.

We have a written treasury policy, and we do regular reconciliations of our positions with our counter-parties. In addition, audits of the treasury function are performed at regular intervals.

Counter-Party Risk

Counter-party risk encompasses settlement risk on derivative and money market contracts and credit risk on cash and time deposits. Exposure to these risks is closely monitored and kept within predetermined parameters. Our group treasury department does not expect any losses from non-performance by these counter-parties and does not have any significant grouping of exposures to financial sector or country risk.

Derivative financial instruments

The contract or underlying principal amount of derivative financial instruments (in millions) at March 31, 2005 and 2006 are set forth by currency in the table below:

	For the Fiscal Year Ended March 31,					
	2006			2005		
	U.S. $ million	EURO million	Rs. million	U.S. $ million	GBP million	Rs. million
Currency related instruments						
Forward foreign exchange rate contracts (sell)	105	36		30	2	
	79.5			40		

Forward foreign exchange rate contracts (buy)				
Over the Counter currency options				
Currency related derivatives	184.5	36	70	2
Interest rate related instruments				
Interest rate swaps		75		
Forward rate agreements				
Interest rate options				
Interest rate related derivatives				

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UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
(in thousands, except share data and where otherwise indicated)

The unaudited pro forma combined statement of operations give effect to the completion of the acquisition of beta Holding GmbH (betapharm), which was consummated on March 3, 2006, giving effect to the acquisition as if it had occurred on April 1, 2005. The unaudited pro forma combined statement of operations combines our historical consolidated statement of operations for the fiscal year ended March 31, 2006 and betapharm for the fiscal year ended November 30, 2005 and eliminates the operating results of betapharm for the post acquisition period of March 3, 2006 to March 31, 2006. Accordingly, the unaudited pro forma combined statement of operations reflect betapharm operating results for a twelve-month period. The historical consolidated financial information has been adjusted to give effect to pro forma events that are (1) directly attributable to the acquisition (2) expected to have a continuing impact on us and (3) are factually supportable. The pro forma adjustments are based on certain estimates and assumptions which are derived from available information. You should read this information in conjunction with the:

- accompanying notes to the unaudited pro forma combined statement of operations;
- our separate historical audited financial statements as of and for the year ended March 31, 2006 which is included and incorporated by reference in this document;
- separate historical audited financial statements of betapharm for the year ended 30 November 2005 included in this prospectus supplement taking into consideration the fact that such year end date is within 93 days of the date when the acquisition was consummated as indicated above.

We present the pro forma combined statement of operations for information purposes only. The pro forma information is not necessarily indicative of what our results of operation actually would have been had we completed the acquisition on April 1, 2005. In addition, the unaudited pro forma combined statement of operations is not indicative of our future operating results of the combined company.

An unaudited pro forma balance sheet is not presented because the acquisition of betapharm occurred prior to March 31, 2006, and assets and liabilities pertaining to betapharm are reflected in our March 31, 2006 historical balance sheet. The unaudited pro forma financial information does not include the realization of cost savings from operating efficiencies, synergies or any other of the effects resulting from the acquisitions of betapharm.

The unaudited pro forma statement of operations relates to the following transaction:

On March 3, 2006, through our wholly owned subsidiary Lacock Holdings Limited, we acquired 100% of the outstanding common shares of betapharm. betapharm is a leading generics pharmaceuticals company in Germany.

The aggregate purchase price of Rs.26,063,321 (Euro 482,654) includes direct acquisition cost amounting to Rs.201,548 (Euro 3,732). The acquisition agreement included the payment of contingent consideration amounting up to Rs.518,400, (Euro 9,600), which was paid into an escrow account. This amount is subject to set-off for certain indemnity claims in respect of legal and tax matters that might arise, pertaining to the periods prior to the acquisition. The escrow will lapse and be time barred at the end of 2013. Since the maximum amounts pertaining to such claims are determinable at the date of acquisition, those amounts have been included as part of the purchase price.

As of March 31, 2006, the purchase price was allocated on a preliminarily basis, based on management s estimate of fair values. During the quarter ended September 30, 2006, we completed the final allocation of the

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UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
(in thousands, except share data and where otherwise stated)

purchase price of betapharm based on management s estimate of fair values and independent valuations of intangible assets as follows:

Current assets:		
Cash and cash equivalents	Rs.	1,357,395
Inventories		538,860
Other current assets		552,938
Property, plant and equipment		372,377
Intangibles:		
Trademarks		5,546,314
Product related intangibles		13,684,867
Beneficial toll manufacturing contract		621,058
Other assets		142,541
Goodwill		12,848,428
Total assets		35,664,778
Deferred tax liability, net		(7,241,686)
Liabilities assumed		(2,359,771)
Purchase cost	Rs.	26,063,321

As a result of the final allocation, total intangibles increased from Rs. 16,325,598 as at March 31, 2006 to Rs. 19,852,239 as at September 30, 2006, goodwill decreased from Rs. 14,958,766 as at March 31, 2006 to Rs. 12,848,428 as at September 30, 2006 and deferred tax liability, net increased from Rs. 5,825,388 as at March 31, 2006 to Rs. 7,241,686 as at September 30, 2006.

Trademarks have an indefinite useful life and are therefore not subject to amortization but are tested for impairment annually. The weighted average useful lives of other intangibles acquired are as follows:

Products related intangibles	14.5 years
Beneficial toll manufacturing contract at betapharm	58 months

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UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
(in thousands, except share data and where otherwise stated)

	Dr. Reddy s fiscal year ended March 31, 2006 as reported	betapharm (From December 1, 2004 to November 30, 2005)	betapharm (From March 3, 2006 to March 31, 2006)	Pro forma Adjustments	Pro forma Combined
Revenues:					
Product sales	Rs.24,077,209	Rs.7,695,281	Rs.(704,915)		Rs.31,067,575
License fees	47,521				47,521
Service income	142,317				142,317
	24,267,047	7,695,281	(704,915)		31,257,413
Cost of revenues	12,417,413	2,471,825	(315,534)		14,573,704
Gross profit	11,849,634	5,223,456	(389,381)		16,683,709
Operating Expenses:					
Selling, general and administrative expenses	8,028,884	3,058,818	(294,272)	42,828(a)	10,836,258
Research and development expenses, net	2,152,950				2,152,950
Amortization expenses	419,867	148,646	(87,217)	977,035(b)	1,458,331
Foreign exchange loss	126,342		14		126,356
Other operating (income) / expenses, net	(320,361)	(84,555)			(404,916)
Total operating expenses	10,407,682	3,122,909	(381,475)	1,019,863	14,168,979
Operating Income / (loss)	1,441,952	2,100,547	(7,906)	(1,019,863)	2,514,730
Equity loss in affiliates	(88,235)				(88,235)
Other (expense) / income, net	533,606	(904,636)	8,035	(299,786)(c)	(662,781)
Income before taxes and minority interest	1,887,323	1,195,911	129	(1,319,649)	1,763,714
Income taxes (expense)/benefit	(258,390)	(519,473)	29,861	463,085(d)	(284,917)
Minority interest	(76)				(76)

Net Income	Rs. 1,628,857	Rs. 676,438	Rs. 29,990	Rs.(856,564)	Rs. 1,478,721
Earnings per equity share					
Basic	Rs.10.64				Rs.9.66
Diluted	Rs.10.62				Rs.9.64
Weighted average number of equity shares used in computing earnings per share					
Basic	153,093,316*				153,093,316*
Diluted	153,403,846*				153,403,846*

See accompanying notes to unaudited pro forma combined statement of operations.

* These numbers have been retroactively restated to give effect to the stock dividend distributed on August 30, 2006.

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NOTES TO UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS

Note 1: General Basis of pro forma presentation

The unaudited pro forma combined statement of operations is presented to give effect to the acquisition of betapharm as if the transaction had been consummated on April 1, 2005. The information relating to betapharm has been conformed to U.S. generally accepted accounting principles and accounting policies followed by us, the accounting principles of the Company.

Note 2: Pro forma adjustments

The unaudited pro forma combined statement of operations reflects the following pro forma adjustments:

(a) Represents the incremental depreciation charge on the fair valued property, plant and equipment of betapharm.

(b) Represents the amortization expense on the intangibles of betapharm amortized over a weighted average useful life of 14.5 years based on management s estimate of fair values.

(c) Represents the incremental interest expense pursuant to the acquisition which primarily represents interest at the rate of 4.65% (being the floating LIBOR rate) on the Euro 400 million loan taken for funding the acquisition of betapharm, the decrease in interest income at the rate of 6.5% (average rate of interest income) resulting from the use of internal funds towards the acquisition of betapharm. However, such incremental interest expense has been partially offset due to a reduction in betapharm s interest expense pursuant to repayment of certain pre-acquisition debt out of the proceeds of the purchase price related to the acquisition.

(d) Represents the tax impact on the above adjustments.

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THE PHARMACEUTICAL INDUSTRY

The information presented in this section has been extracted from reports from IMS Health, Espicom Business Intelligence and other independent producers of industry data, which have not been prepared or independently verified by us, the Lead Managers, or any of our or their respective affiliates or advisers.

Global Pharmaceutical Industry

The pharmaceutical industry, which includes the discovery, development and distribution of drugs, is characterised by its large size, high growth, globalisation and significant investment in research and development. The global pharmaceutical industry is driven by a continuing need for medications for the treatment of disease, by demographic shifts that strengthen this underlying demand and by improved healthcare infrastructures that are providing people with greater access to medications. In 2005, global pharmaceutical revenues was estimated at $602 billion. In the ten major markets that account for 81 per cent of the total global revenues, the average growth was 6 per cent in 2005, compared with 7 per cent the previous year. However, emerging markets - including China, Korea, Mexico, Russia and Turkey experienced double-digit growth and, by consistently out-pacing global performance, have begun to signal important shifts in the market place. With improving patient access to prescription drugs, the emerging markets of Asia, Latin America and Eastern Europe have gained in strength.

Global growth in pharmaceutical revenues was driven by increased longevity of the populations, rising wealth, innovative new products, and new applications for existing products. In 2005 alone, 40 per cent of total market growth was fuelled by the introduction of new products, including 30 new molecular entities launched in key markets.

The United States is the world s largest pharmaceutical market, accounting for approximately 47% of all prescription drug sales in 2005, according to IMS Health. The total US market is estimated at approximately US$265.7 billion and posted an approximately 5.2% growth in 2005 over 2004. In 2005, Europe accounted for 30% of global pharmaceutical sales with a total market size of US$169.5 billion.

The pharmaceutical market in Asia is still evolving. Although growing at a slower pace than the US and European markets, according to IMS Health data, the Japanese pharmaceutical market, which has historically posted slower growth rates, performed strongly in 2005, growing 6.8% to audited sales of US$60.3 billion, or approximately 10.7% of the regional audited market in 2005. Pharmaceutical sales in China grew 20.4% to US$11.7 billion in 2005, representing the third consecutive year that market has achieved more than 20% growth. IMS estimates that China will be the world s seventh largest pharmaceutical market by 2009. Population growth is expected to boost the demand for pharmaceuticals throughout Asia, especially in the Philippines, Malaysia, India and Indonesia. In Japan, an aging population is expected to drive growth in drugs in the chronic therapy areas.

Global Generics Industry

Generic drugs are the pharmaceutical and therapeutic equivalents of brand-name drugs. Generic drugs are generally less expensive than their brand-name equivalents depending, among other factors, on national pricing policies and the pricing strategies of the brand-name drug companies. Generic drugs are widely used in many countries in cost-effective treatment programs, and are increasingly prescribed by general practitioners as effective alternatives to higher-priced originator brand-name drugs.

The global generic pharmaceutical market, measured at consumer prices, stood at US$66.7 billion in 2005, an increase of approximately 10% over 2004, according to Espicom Business Intelligence. In 2005, the generic pharmaceutical

market in the United States grew by 11.4% to US$28 billion.

The key growth drivers for the generics industry can be summarised as follows:

- multiple branded drug patent expirations in the short term;
- increasing consumer confidence in generics because of the involvement of large pharmaceutical companies and campaigns to heighten consumer awareness of the availability of cheaper drugs;

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a pro generic sentiment from healthcare authorities driven by the pressure to contain rising healthcare cost;

an aging population fuelling demand for low cost therapies across the world; and

global healthcare crisis such as AIDS in the developing world, like sub-Saharan countries, necessitating affordable medication for the masses.

Trends in the Generics Industry

In 2004, although the growth of generics outpaced the growth of the total pharmaceutical industry, the generics industry faced multiple challenges relating to pricing, litigation and regulatory compliance. Manufacturers of branded drugs aggressively defended their patents and sought to extend them wherever possible.

Pricing pressure was intense in 2005 and 2006, even though new generic drugs are expected to continue to be launched using aggressive pricing models. Industry consolidation is expected to bring in economies of scale and provide access to newer geographies to regional players. The biggest growth driver is the pipeline of blockbuster patent expiries. Consequently, generic companies are recognising the importance of pipelines and are making significant incremental investments in research and drug development.

The following points highlight expected trends in the industry:

Increasing consolidation within the generic industry. Industry consolidation is expected to play an increasing role in the sector. To this end large manufacturing and distribution facilities are essential requirements. An important factor driving consolidation is the need for companies to expand into multiple geographies and internationalise. This is also gaining importance from a product pipeline point of view. Companies will increasingly try to supplement their research and development and product pipelines through acquisitions of complementary technologies and product portfolios.

Increased competition from Indian and Chinese companies. Generic companies are beginning to recognise the strategic importance of having a low-cost supply. To this end, Indian companies have been investing in generic manufacturing facilities. This excess manufacturing capacity has transformed the markets for most individual products from oligopolies to perfectly competitive markets.

Over the last few years China has emerged as a dominant player in the low-cost manufacturing landscape. Although Chinese manufacturers lag behind in the production of finished pharmaceutical goods, they have taken a leading position in the manufacture of active pharmaceutical ingredients. The market for active pharmaceutical ingredients is expected to become more competitive with time as Chinese manufacturers continue to scale up their activities.

Aggressive pricing model for new generic products. The generics industry has seen increased competition from existing players trying to capitalise on the limited off-patent product opportunities and the entry of new players from countries with a low-cost manufacturing base. This led to pressure on pricing in 2004, which became more severe in 2005. Going forward, new generic products are likely to adopt the current aggressive pricing model.

Increased alliances, ventures and collaborations. In the environment of fast eroding generic prices, companies have recognised the importance of a global presence. Highly regulated markets like Australia and Japan have high barriers to entry and this has led to a trend among companies to enter into strategic alliances and joint ventures for marketing and distribution of drugs. Also, given the high costs involved in drug development, more and more companies are adopting models of collaborative research. Securing low-cost generics suppliers is also viewed as a strategic priority

and may lead to a greater number of acquisitions, partnerships and licensing agreements. This trend is expected to gain even greater momentum in the near future.

Key patent expirations over 2006 to 2008. There is a steady supply of blockbuster drugs due to go off patent until at least 2009. As generic revenues are heavily dependent on a constant stream of new product launches, many companies are looking ahead to 2006 to 2008 to capitalise on the pipeline of key

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patent expirations. According to IMS Health, 2007 could potentially see US$16 billion (excluding manufacturer rebates and discount on sales) of branded sales becoming susceptible to the entry of generic equivalents. Coupled with the cost containment policies adopted by health regulators, these patent expirations are expected to result in an increase in the prescription growth rate for the generic industry in 2007 and 2008. According to IMS Health, over $64 billion of product patent expirations are expected over the next 5 years.

Improved market share of generics in the United States due to the introduction of Medicare drug benefits in 2006. A key growth driver for the United States generic industry will be the introduction of Medicare drug benefits in 2006, which provides coverage for the 40 million senior citizens enrolled in Medicare. This will increase the federal government s share of the national drug bill and place greater emphasis on containing costs. The use of cheaper alternatives to branded products will be seen as one way to limit the costs of increased consumption levels. The development of Medicare formularies by plans which manage the new prescription drug benefit from 2006 will cover more drug categories than current private drug plans, offering even greater potential for generic use. Opportunities for therapeutic substitution in categories where there is generic competition will also help drive growth in the use of generics.

Aggressive efforts by innovator companies to sustain market share post patent expiration. Innovator companies are trying hard to maintain market share after their patents expire through aggressive legal action and launching authorised generics. They may also attempt to prevent exclusivities by withdrawing the patents to curtail the growth of the generics. The acceleration in authorised generics is the biggest structural change in the industry. Authorised generics are generally an offshoot of (or a precursor to) the generic strategy of big branded pharmaceutical companies. This practice involves a branded pharmaceutical company countering the first generic threat to one of its drugs by facilitating the launch of its own generic version, typically via a subsidiary or through special arrangement with a generic firm. Though these practices have been used sporadically in the past, they are becoming increasingly common. These practices are being used by the innovator company to slow the loss of effective market share (and lessen the financial impact) and drive down the price of the bona fide generic.

Shared exclusivity diluting value of generic opportunity. The Hatch-Waxman Act and its subsequent modifications in the United States was intended to promote generic competition by providing for a 180-days market exclusivity period for the first generic company to make its ANDA filing. However, there are certain circumstances in which the value of this period is diluted by the award of shared exclusivity among bona fide generic participants. In this scenario, two or more companies file ANDAs containing Paragraph IV certifications on the same day. The FDA has the authority to grant shared exclusivity in such an instance.

Generic Pharmaceutical Market in the United States

Generics are playing an increasingly prominent role in the US healthcare market. According to IMS Health, generics (including branded generics) accounted for over 55% of all prescriptions dispensed and 17.4% of all prescription dollars spent in 2004.

The generics market size in the US was valued at US$28 billion in 2005, according to Espicom Business Intelligence. Espicom Business intelligence estimates that the generic pharmaceutical market in Germany will reach US$43 billion by 2009.

In the recent years, the US generics market experienced intensified competition and increased price pressure. To counter the effects of price erosion in generics, the industry is consolidating in order to achieve economies of scale, offer a wider product portfolio and expand customer base.

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The displacement of higher-priced brand-name drugs by less expensive generic products translates into significant savings for healthcare consumers. The Medicare Modernization Act, increased emphasis on overall healthcare cost containment and aging national demographics should lead to even greater demand for generics. Both private insurers, which according to IMS Health estimates account for 49% of retail drug spending, and public payers are placing more emphasis on cost containment. With prescription drug costs accounting for between 15% and 20% of employer-based health plans, employers are taking more controls over benefits. In the public sector, generics are being given greater prominence as state and federal budgets come under greater pressure.

Generic Pharmaceutical Markets in Europe

In Europe, most of the healthcare costs are largely borne by the state. With year on year increases in state spending on healthcare, governments have been seeking ways to reduce healthcare costs. Towards this end, the 25 European Union member states are in the process of streamlining the registration of medicines through mutual recognition procedures, which provide a mechanism for obtaining approval in other member states after approval has been granted in one member state.

In many European countries, doctors and pharmacies are also being incentivised, through financial and other means, to prescribe generic products. The uptake of generics in the European Union varies greatly from country to country, although the general trend is towards greater generic use. Generally speaking, higher priced markets, such as Germany and the United Kingdom, have encouraged the use of generics in order to keep costs down. This has been done through reimbursement reforms and pharmacy substitution measures.

Germany. The German generics market is the largest in Europe and the government is implementing several healthcare reforms to cutail costs and enhance the usage of generics. The generics market size in Germany was valued at US$6.3 billion in 2005, according to Espicom Business Intelligence. Espicom Business intelligence estimates that the generic pharmaceutical market in Germany will reach US$8.1 billion by 2009.

The United Kingdom. The generics market in the United Kingdom is the second largest in Europe. In the United Kingdom, the government continues to introduce measures aimed at reducing the public sector drug bill to encourage the use of generic products. The generics market size in UK was valued at US$4.4 billion in 2005, according to Espicom Business Intelligence. Espicom Business intelligence estimates that the generic pharmaceutical market in UK will reach US$5.8 billion by 2009.

France. The French generics market is the third largest in Europe. A relatively high level of pharmacy substitution is a key reason for generic uptake in this market. The generics market size in France was valued at US$2.3 billion in 2005, according to Espicom Business Intelligence. Espicom Business intelligence estimates that the generic pharmaceutical market in Italy will reach US$4.8 billion by 2009.

Italy. The Italian generics market is at an early stage of development compared to the other top five markets in Europe. Italy has a lower prices compared to other European Union markets, with strong local players excerting promotional pressure to encourage loyalty to organiator brands. The generics market size in Italy was valued at US$2.7 billion in 2005, according to Espicom Business Intelligence. Espicom Business intelligence estimates that the generic pharmaceutical market in Italy will reach US$3.7 billion by 2009.

Other Generic Pharmaceutical Markets

India. The Indian pharmaceutical industry is a highly competitive and fragmented market with approximately 24,000 players. It is dominated by intensely promoted branded generics. The retail size of the Indian pharmaceutical market was estimated to be US$4.6 billion in 2004, having grown by 6.4% over the previous year, according to IMS Health.

India manufactures over 400 bulk drugs and approximately 60,000 formulations are distributed by 500,000 chemists all over the country.

As a part of complying with the World Trade Organization s 1994 General Agreement on Tariff and Trade (GATT), India committed to amend its patent laws to comply with the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). This required India to introduce a product-patent regime for pharmaceutical products in India, effective January 1, 2005. India complied with these requirements in

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three stages. First, India introduced a transitionary system that would let product patent applications filed elsewhere after January 1, 1995 to be filed in India in a mail-box which would be opened for examination on January 1, 2005. India also increased the term of a patent to 20 years from the date of filing the application in compliance with TRIPS. Finally, the Indian Patents Act, 1970 was amended by the Patents (Amendment) Act, 2005 to comply with TRIPS, effective January 1, 2005, first through a presidential ordinance promulgated on December 26, 2004. The ordinance was then superceded by an Act of Parliament passed on March 22, 2005 and assented to by the President on April 4, 2005. This introduced a product patent system for pharmaceutical, food and agrochemicals in India, effective January 1, 2005.

A relatively high number of new product launches in 2004 and 2005 were a major growth driver for the Indian generics market. This trend, however, is not likely to continue as the high number of new product launches was primarily the result of efforts to launch new products before full implementation of the product patent regime. The chronic therapy segment continued to grow and accounted for 26% of the total market in 2004 as compared to 25% in 2003 as per IMS Stockist Sell Out Audit. This segment mainly includes anti-diabetes, cardiac, neuro-psychiatry, asthma, HIV, urology and antituberculosis therapies.

Brazil. The generics market size in Brazil was valued at US$900 million in 2005, according to Espicom Business Intelligence, comprising approximately 6.3% of the total pharmaceutical market. Espicom Business intelligence estimates that the generic pharmaceutical market in Brazil will reach US$2.4 billion by 2009.

Russia. The generics market size in Russia was valued at US$1.4 billion in 2005, according to Espicom Business Intelligence, comprising approximately 30% of the total pharmaceutical market. This is equivalent to approximately US$10 per capita. Espicom Business intelligence estimates that the generic pharmaceutical market in Russia will reach US$2 billion by 2009, or equivalent to US$14 per capita.

China. China represents a potentially large healthcare market attracting a high level of overseas business including those from the pharmaceutical sector. According to Espicom Business Intelligence data for 2004, the size of the western style pharmaceutical market (as opposed to traditional Chinese medicine) is estimated to be around US$17.7 billion. Espicom Business Intelligence (June 2004) estimates a growth rate of approximately 8.5% and expects the Chinese market to maintain a ranking of just outside the top five in the world by the close of the decade. China, like India, is dominated by branded generics in the retail sector.

South Africa. According to Espicom Business Intelligence, the generic pharmaceutical market in South Africa was valued at US$681 million in 2005 and generic penetration as a percentage of total pharmaceutical market was 38%. The increased use of generics remains one of the key elements of the government s plans for reform of pharmaceutical use in South Africa. In addition, the most serious and high profile healthcare concern in South Africa is HIV infection for which generic medicines provide an affordable alternative. The introduction of compulsory generic substitution by the government in mid-2003 as part of its major overhaul of the pharmaceutical regulatory system should continue to drive growth in generics. Espicom Business Intelligence estimates the value of the generic sector in South Africa will grow to US$940 million by 2009.

Regulation

U.S. Regulatory Environment

All pharmaceutical manufacturers selling products in the United States are subject to regulation by the U.S. federal government, principally by the U.S. FDA and the Drug Enforcement Administration, and, to a lesser extent, by state and local governments. The Federal Food, Drug, and Cosmetic Act (FFDCA) and other federal statutes and regulations govern and influence the development, manufacture, testing, safety, efficacy, labeling, approval, storage,

distribution, record keeping, advertising, promotion and sale of a pharmaceutical company s products.

Non-compliance with the FFDCA or with regulations promulgated by the FDA may result in fines, criminal penalties, civil injunctions against shipments of products, recall and seizure of products, total or partial suspension of production, total or partial suspension of sale or import of products, refusal of the government to enter into supply contracts, refusal to approve new drug applications. Persons, including partnerships and corporations, who violate sections of the FFDCA can be criminally prosecuted.

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The FDA regulates research, manufacture, promotion, and distribution of drugs in the United States, as well as importation and exportation of drugs. The FFDCA requires the filing and approval of applications before new drugs, including generic versions of new drugs, can be marketed. Human biologic drugs, regardless whether they are new drugs under the FFDCA, must be approved under the Public Health Service Act prior to marketing. The term new drug under the FFDCA applies, with certain exceptions, to any drug not generally recognized among qualified experts as safe and effective for use under the conditions described in its labeling. Even a drug that has become recognized as safe and effective for use under labeled conditions as a result of investigations into its safety and effectiveness may constitute a new drug under the FFDCA if the product has not otherwise been used to a material extent or for a material time under the conditions investigated.

Section 505 of the FFDCA describes three types of new drug applications for human drugs:

a full NDA;

a 505(b)(2) NDA; and

an ANDA.

A full NDA is submitted under Section 505(b)(1), and contains full reports of investigations of safety and effectiveness conducted by the applicant or for which the applicant has a right of reference.

A 505(b)(2) NDA is an NDA described in Section 505(b)(2) of the FFDCA for a drug for which one or more of the investigations relied upon by the applicant was not conducted by the applicant and for which the applicant has no right of reference from the person by or for whom the investigations were conducted. A 505(b)(2) NDA may be filed based in whole or in part on published literature, on the U.S. FDA determinations of safety and/or efficacy for classes of drugs, and/or on the FDA s finding of safety and efficacy of previously approved drug.

The regulatory procedure for filing of ANDAs and 505(b)(2) NDAs was established in The Drug Price Competition and Patent Term Restoration Act of 1984, also known as the Hatch-Waxman Act. The 1984 amendments to the FFDCA established the current ANDA approval process, which permits generic versions (similar or identical products containing at least one of the same active ingredients) of previously approved drugs to be approved without submission of a full NDA or 505(b)(2) NDA approved based on bioequivalence rather than studies, including clinical studies, demonstrating safety and efficacy.

The statute permits filing of ANDAs for a drug product that is the same as a reference listed drug (RLD), with respect to active ingredient, route of administration, dosage form, strength and conditions of use recommended in the labeling and for a drug product with certain changes from a listed drug if the FDA has approved a suitability petition permitting submission of an ANDA for a changed drug product. ANDAs do not contain safety and clinical efficacy studies as required in NDAs but are required to show that its generic drug is bioequivalent to the reference listed drug (or, in certain limited circumstances, that the drug has the same therapeutic effect). The FDA provides information to the public with regard to generic drugs that the agency deems therapeutically equivalent to the RLD. The agency deems a generic product to be therapeutically equivalent to the RLD if it is pharmaceutically equivalent (same active ingredient or ingredients, strength, dosage form, and route of administration) and bioequivalent to the RLD. The Hatch-Waxman Act also provide for market exclusivity provisions that can delay the submission and/or the approval of generic applications. They delay competitive products from entering the market by delaying the FDA s approval or, in some circumstances, its acceptance of certain ANDAs and 505(b)(2) NDAs. These statutory exclusivity provisions are implemented and monitored by the U.S. FDA.

A five-year period of exclusivity known as NCE Exclusivity is granted to NDAs for products containing an active moiety (defined by the FDA as the molecule or ion responsible for the physiological or pharmacological action of the drug substance, irrespective of its form or indication) that has not been previously approved by the FDA in any other NDA. NCE Exclusivity is unique in that it prohibits U.S. FDA from accepting an ANDA or 505(b)(2) NDA for a period of five years after approval of the NCE drug unless

the ANDA or 505(b)(2) NDA contains a certification of patent invalidity or non-infringement (a Paragraph IV certification), in which case the ANDA or 505(b)(2) NDA may be submitted after four years.

Three years of exclusivity is granted for NDAs, including supplemental NDAs, when the application is supported by new clinical investigations that are essential to approval.

Pediatric exclusivity may extend five-year exclusivity and three-year exclusivity by six months as a reward for conducting certain types of studies in children. Pediatric exclusivity may also add an additional six-month delay to the approval of ANDAs and 505(b)(2) NDAs that are delayed by patents. To qualify for pediatric exclusivity, a pediatric study must be based on a written request by The U.S. FDA but need not be successful. Pediatric exclusivity can be earned for drugs that are already approved and also for drugs in the approval process. Pediatric exclusivity attaches to any marketing exclusivity and statutory delay associated with a patent that covers a drug product with the same active moiety as the product that was the subject of the pediatric study, meaning that pediatric exclusivity is not limited to the product that was studied in the pediatric population.

An orphan drug is, with certain exceptions, a drug intended to treat rare diseases or conditions that affect 200,000 or fewer persons in the United States. The FFDCA provides NDA holders with a seven-year period of exclusivity for an orphan indication following an U.S. FDA approval of the indication. Orphan drug exclusivity prohibits approval not only of generic products but also of NDAs, including full NDAs, for products that contain the same active ingredient drug and are labeled for the same orphan indication.

The Hatch Waxman Act also provides in certain circumstances for extension of expiration dates of patents for drugs approved under NDAs to compensate for the reduction of effective life of the patent that result from time spent in clinical trials and time spent by the FDA reviewing the application. Under the terms of the Hatch-Waxman Act, an applicant submitting an ANDA or a 505(b)(2) NDA that relies on the approval of another NDA must make certain certifications with respect to the patent status of the drug for which it is seeking approval. With respect to every patent that claims the RLD or a method of use approved for the RLD, the ANDA and 505(b)(2) applicant must include a certification that states its position with respect to the patent.

In the event that such applicant plans to challenge the validity and/or enforceability of an existing patent that is listed for the previously approved NDA in the U.S. FDA s Orange Book or asserts that the proposed product does not infringe a listed patent, the applicant must file a Paragraph IV certification to that effect. Submission of an ANDA or 505(b)(2) NDA challenging a patent listed for an NDA can result in protracted and expensive patent litigation. When such a lawsuit is brought within 45 days of receiving notice of the submission of an ANDA or 505(b)(2) NDA containing a Paragraph IV certification, the U.S. FDA is, with certain exceptions, precluded from approving the ANDA or 505(b)(2) NDA until the earlier of thirty months or a court decision finding the patent invalid, not infringed or unenforceable.

The statute provides an incentive of 180 days of market exclusivity to the first ANDA applicant or applicants who challenge a listed patent. Under the original provisions of the Hatch-Waxman Act, which still apply to certain ANDAs (where the first Paragraph IV certification for any listed patent was submitted before December 8, 2003), the first ANDA applicant or applicants to satisfy the statutory requirements related to a Paragraph IV certification with regard to a particular listed patent are entitled to a delay in the approval of other ANDAs containing Paragraph IV certifications with regard to the same listed patent until 180 days after the earlier of the first commercial marketing of the drug by the first applicant or a final court decision that the patent is invalid, unenforceable, or not infringed. The Medicare Prescription Drug, Improvement and Modernization Act of 2003 modified certain provisions of the Hatch-Waxman Act related to 180-day exclusivity. These provisions apply where the first Paragraph IV certification for any listed patent was submitted on or after December 8, 2003. Under these provisions, 180 days of market 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

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exclusivity period begins on the date of first commercial marketing of the drug by any of the first applicants. However, a first applicant may forfeit its exclusivity in a variety of ways, including the following:

- the applicant fails to obtain tentative approval within 30 months after the application is filed;
- the applicant fails to market its drug by the later of two dates calculated as follows: (a) 75 days after approval or 30 months after submission of the ANDA, whichever comes first, or (b) 75 days after each patent for which the first applicant is qualified for 180-day exclusivity is either (i) the subject of a final court decision holding that the patent is invalid, not infringed, or unenforceable or (ii) withdrawn from listing with the U.S. FDA (court decisions, including settlements, 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 applicant withdraws the ANDA or amends each of the Paragraph IV certifications;
- the applicant enters into an agreement found to be in violation of antitrust laws; or
- all the patents that earned the applicant eligibility for the exclusivity expire.

The Generic Drug Enforcement Act of 1992 established penalties for wrongdoing in connection with the development or submission of an ANDA by authorizing the U.S. FDA to permanently or temporarily debar such companies or individuals from submitting or assisting in the submission of an ANDA, and to temporarily deny approval and suspend applications to market generic drugs. The U.S. FDA may suspend the distribution of all drugs approved or developed in connection with wrongful conduct and also has authority to withdraw approval of an ANDA under certain circumstances. The U.S. FDA may also significantly delay the approval of a pending NDA or ANDA under its Fraud, Untrue Statements of Material Facts, Bribery, and Illegal Gratuities Policy.

Manufacturers of generic drugs must also comply with various labelling, advertising, and product quality requirements, including the U.S. FDA s current good manufacturing practice standards or risk the sanctions described above, including injunction against manufacture or distribution, seizure of drug products, and the U.S. FDA s refusal to approve pending ANDAs. Products manufactured outside the United States and marketed in the United States are subject to all of the above regulations, as well as to the U.S. FDA and US customs regulations at the port of entry. Products marketed outside the United States that are manufactured in the United States may be exempt from certain of the aforementioned requirements, but are subject to various export statutes and regulations, as well as regulation by the country or countries to which the products are exported.

The Centers for Medicare & Medicaid Services (CMS) is responsible for, among other things, enforcing legal requirements governing rebate agreements between the federal government and pharmaceutical manufacturers. Drug manufacturers agreements with CMS provide that the drug manufacturer will report on its average manufacturer price and remit to each state Medicaid agency, on a quarterly basis, certain rebates. For generic drugs marketed under ANDAs covered by a state Medicaid program, manufacturers are required to rebate 11% of the average manufacturer price (sales to the retail class of trade net of cash discounts and certain other reductions). For products marketed under NDAs, manufacturers are generally, with certain exceptions, required to rebate the greater of 15.1% of the average manufacturer price (net of cash discounts and certain other reductions) or the difference between such average manufacturer price and the best price during a specified period. An additional rebate for products marketed under NDAs is payable if the average manufacturer price increases at a rate higher than inflation.

Various state Medicaid programs have in recent years adopted supplemental drug rebate programs that are intended to provide the respective states with additional manufacturer rebates that cover patient populations that are not otherwise

included in the traditional Medicaid drug benefit coverage. These supplemental rebate programs are generally designed, with certain exceptions, to mimic the federal drug rebate program in terms of how the manufacturer rebates are calculated, for example, as a percentage of average manufacturer price. There are several initiatives under consideration before Congress that are intended to increase the amount and timeliness of the rebate program and otherwise reduce the amount Medicaid spends on prescription drugs.

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Indian Regulatory Environment

All pharmaceutical companies that manufacture and market pharmaceutical products in India are subject to various national and state laws and regulations, which principally include the Drugs and Cosmetics Act, 1940, as amended, or the DCA, the DPCO, various environmental laws, labor laws and other government statutes and regulations. These regulations govern a variety of activities including manufacturing, advertising, promotion, export, import, sale and distribution of pharmaceutical products.

In India, manufacturing licenses for drugs and pharmaceuticals are issued by state drug authorities. Under the DCA or the rules thereunder, the state drug administrations are empowered to issue manufacturing licenses for drugs if they are approved for marketing in India by the Drug Controller General of India, or DCGI. Prior to granting licenses for any new drugs or combinations of new drugs, DCGI clearance has to be obtained in accordance with the Drugs and Cosmetics Act. Schedule Y of the DCA prescribes the requirements for the grant of permission to conduct clinical trials and for manufacturing or import of new drugs for marketing in India. Schedule Y of the DCA prescribes specific procedures that need to be followed while conducting clinical trials in India, including safety and ethical norms, responsibilities of sponsors and investigators. Schedule M of the DCA prescribes various good manufacturing practices and requirements for the premises, plant and equipment used for manufacture of pharmaceutical products.

The advertisement of drugs is regulated by the provisions of the Drugs & Magic Remedies (Objectionable Advertisement) Act, 1954, as amended, or DMRA. The DMRA prohibits the publication of misleading advertisements relating to drugs and the import into or export from India of certain advertisements. The DMRA also prohibits the advertisement of any drug for certain specified diseases and disorders.

Under the present drug policy of the government of India, 74 bulk drugs have been specified in the first schedule of the DPCO and are called Scheduled Drugs subject to price control. A bulk drug is defined as any pharmaceutical, chemical, biological or plant product that conforms to certain prescribed standards and is used as such or as an ingredient in any formulation. The government of India has established the National Pharmaceutical Pricing Authority, or NPPAto control pharmaceutical prices. Under the DPCO, the NPPA has the authority to fix the maximum selling price for Scheduled Drugs. The NPPA fixes/revises the prices of these Scheduled Drugs and their corresponding formulations as per the provisions of the DPCO. Prices of non-scheduled formulations are fixed by the manufacturers themselves but are monitored by NPPA in accordance with prescribed guidelines.

Import and export of pharmaceutical products is regulated by the export and import, or EXIM policy currently in force. Exports are also subject to laws prevalent in importing countries.

On March 22, 2005, the government of India passed the Patents (Amendment) Act 2005, introducing a product patent regime for food, chemicals and pharmaceuticals in India. The Patents (Amendment) Act 2005 specifically provides that new medicines (patentability of which is not specifically excluded) for which a patent has been applied for in India on or after January 1, 1995 and for which a patent is granted cannot be manufactured or sold in India by other than the patent holder and its assignees and licensees.

European Regulatory Environment

The European Union directive makes it mandatory for medicinal products to have a marketing authorization before they are placed on the market in the European Union. Authorizations are granted by individual European Union member states upon the filing of a National Filing and an assessment of quality, safety and efficacy. The term of certain pharmaceutical patents may be extended in Europe through the Supplementary Protection Certificate system by up to five years in order to extend effective commercialization exclusivity of the innovator product up to a total of 15 years of exclusivity. Under this procedure, for example, some French and Italian patents were extended up to eight

and 18 years, respectively.

Furthermore, in order to control expenditures on pharmaceuticals, most member states in the European Union regulate the pricing of such products and in some cases limit the range of different forms of a drug available for prescription by national health services. These controls can result in considerable price differences among member states.

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Additionally, data exclusivity provisions in Europe may prevent launch of a generic product by six or 10 years from the date of the first market authorization in the European Union. Legislation has been adopted (Grant of Marketing Authorisation via the Centralised Procedure) which lengthens the exclusivity period for new products to 10 years for all members of the European Union, with a possibility of extending the period to 11 years under certain circumstances. New legislation also enables the submission of a generic dossier to the health authorities eight years after the first market authorization, and allows for research and development work during the patent term for the purpose of submitting registration dossiers (the so-called Bolar provision in the European Union).

All pharmaceutical companies that manufacture and market products in Germany are subject to the rules and regulations defined by the German drug regulator, the Bundesinstituts für Arzneimittel und Medizinprodukte (BfArM) and the Federal Drug Authorities.

In Germany, the government has introduced several healthcare reforms in order to control healthcare spending and promote the prescribing of generic drugs. In late 2003, the German government passed the healthcare reform act (GKV-Modernisierungs-Gesetz) which became effective January 1, 2004. As the reform aimed to reduce overall healthcare costs, the majority of changes were related to reimbursement. Subsequently, the German government passed the Economic Optimization of the Pharmaceutical Care Act (Arzneimittelversorgungs-Wirtschaftlichkeisgestz or AVWG) which became effective May 1, 2006 which also is designed to contain increased pharmaceutical costs. The AVWG s provisions include, among other things: prohibitions on the provision of free goods to pharmacists; limitations on the payment of rebates to wholesalers and pharmacists; prohibitions on price increases for generics prior to March 31, 2008; implementation of additional mandatory rebates of 10% if pharmaceutical prices are not 30% below the reference prices as published by the German government; reduction of fixed prices as of July 1, 2006; and empowering the SHI organizations to waive copayments by patients.

Miscellaneous Regulatory Matters.

Pharmaceutical companies are also governed by national, regional and local laws of general applicability, such as laws regulating working conditions. In addition, pharmaceutical manufacturers are subject, to various national, regional and local environmental protection laws and regulations, including those governing the discharge of materials into the environment. Compliance with such environmental provisions is not expected to have a material effect on our operations in the foreseeable future.

As discussed above, exclusivity provisions exist in many countries worldwide and may be introduced by additional countries in the future, although their application is not uniform. In general, these exclusivity provisions prevent the approval and/or submission of generic drug applications to the health authorities for a fixed period of time following the first approval of the brand-name product in that country. As these exclusivity provisions operate independently of patent exclusivity, they may prevent the submission of generic drug applications for some products even after the patent protection has expired.

Intellectual Property Rights

A patent allows its owner to exclude others from making, using or selling products or technology that are covered by the patent claims. The term of a patent varies by jurisdiction but in the United States a patent generally has a term of 20 years from filing or 17 years from issuance. In addition to patents, intellectual property is often protected by copyright laws, trade secret laws and trademark laws.

Different countries have produced different intellectual property rights laws, each one a balance between the industry s desire to capitalise on its investments in technological development and the rights of society to benefit from the knowledge and resources of its country. In recent times, intellectual property rights have become synonymous with

the debate on generic drug production and trade.

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Pharmaceutical products are covered by a number of patents, sometimes by as many as 30 to 40 patents or more. In addition, a patent on a new use can block the registration or marketing of a generic for treatments where the base patent has already expired. Three of the key forms of patent protection are:

Product patents. Pharmaceutical product patents protect a particular molecular structure, compound, combination, composition, product, formulation, dosage form, kit or the like and in most jurisdictions prevent everyone else from making, using, offering for sale and selling a pharmaceutical product that embodies the patented molecular structure, compound, combination, composition, product, formulation, dosage form, kit or the like without permission.

Process patents. Pharmaceutical process patents protect only the method by which a product is made, not the molecular structure of the product itself. If someone can make the same product by a different non-infringing process, the holder of a process patent cannot prevent the product from being reproduced.

Use/utility patents. Patents to protect the use of a product or NCE for particular therapeutic indications.

With the advent of the World Trade Organization and TRIPS, there has been a general tendency towards a tightening of intellectual property laws around the world, to bring countries into line with the United States and the European Union provisions. This naturally reduces the scope for generic manufacturers to produce their own versions of newer, top-selling drugs.

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BUSINESS

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

Our total revenues for the year ended March 31, 2006 were Rs.24,267.0 million (U.S.$545.6 million). We derived 34.1% of these revenues from sales in India, 16.4% from the United States and Canada (North America), 14.7% from Russia and other countries of the former Soviet Union, 17.8% from Europe and 17.0% from other countries. Our net income for fiscal 2006 was Rs.1,628.9 million (U.S.$36.6 million). We were the third largest listed Indian pharmaceutical company by revenues for the year ended March 31, 2006 and we were the largest listed Indian pharmaceutical company by revenues for the six months ended September 30, 2006. Our revenues have grown at a Compounded Annual Growth Rate (CAGR) of 17% between the year ended March 31, 2001 and March 31, 2006.

Our total revenues for the three months ended June 30, 2006 were Rs.14,049.4 million (U.S.$306.3 million). For the three months ended June 30, 2006, we received 34.6% of our revenues from North America (United States and Canada), 17.0% of our revenues from India, 10.4% of our revenues from Russia and other former Soviet Union countries, 23.1% of our revenues from Europe and 14.9% of our revenues from other countries. Our net income for the three months ended June 30, 2006 was Rs.1,397.6 million (U.S.$30.5 million).

Our total revenues for the three months ended June 30, 2005 were Rs.5,591.4 million (U.S.$121.9 million). In the three months ended June 30, 2005, we received 11.8% of our revenues from North America (United States and Canada), 37.3% from India, 18.0% from Russia and other former Soviet Union countries, 18.5% from Europe and 14.5% from other countries. Our net income for the three months ended June 30, 2005 was Rs.347.3 million (U.S.$8 million).

OUR STRATEGY

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

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

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

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

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

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

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OUR COMPETITIVE STRENGTHS

We believe that our principal competitive strengths include the following:

Global presence. We have established sales and marketing organizations in key pharmaceutical markets, including the United States, India, Germany, Russia, the United Kingdom, South Africa, Brazil and China, with a global field force of more than 2,000 personnel. We operate 13 manufacturing facilities in three countries. We believe this global presence is one of our most important strengths in part because a substantial barrier to growth for generics companies is establishing the requisite sales and marketing infrastructure in new markets. Our products are sold in over 40 countries, with our key markets located in the United States, India, Russia, and Europe and an increasing presence in the other key markets. We believe this geographical diversification provides us with an advantage over other leading generics companies and helps to reduce our dependence on any one market or region as well as diminishes the impact of downturns in a particular market or region.

Research & Development Expertise. Our proven capabilities and cost advantage in research and development allow us to bring to market a broad array of pharmaceutical products. With over 1,300 research and development staff, we focus on developing APIs, Finished Dosages, Biogenerics, Specialty products and New Chemical Entities, or NCEs. Our strong process chemistry skills, formulation development capabilities, regulatory and intellectual property expertise are well integrated creating a strong global product development platform. We are leveraging our strengths to create a strong product pipeline, including products with differentiation. We are also leveraging our strengths in discovery research to build a pipeline of NCEs addressing unmet medical needs in the areas of cardiovascular and metabolic disorders.

Vertically integrated operations. The vertical integration of our operations enables us to sustain price competitiveness in our major markets. We are able to keep our manufacturing costs lower by taking advantage of our in-house production of active pharmaceutical ingredients, the key building blocks for producing finished dosages, which supply a majority of our production requirements. In addition, most of our manufacturing facilities are located in India, providing access to cost efficient manufacturing operations.

Broad portfolio and large pipeline. A broad and robust pipeline is key to long-term profitable growth. We have made and continue to make significant investments in building a global pipeline to address the market opportunities in both the global generics industry as well as our innovation driven drug discovery and specialty pharmaceuticals segments. As of September 30, 2006, we had 83 abbreviated new drug applications (ANDAs) filed with the United States Food and Drug Administration (U.S. FDA), of which 27 had been approved and 56 were pending approval, which according to IMS MAT data dated December 2005 relate to brand name drugs having aggregate sales in the United States of approximately U.S. $61 billion. Of the 56 ANDAs pending approval, 33 have been filed with a Paragraph IV certification. As of September 30, 2006, we had a pipeline of 86 DMFs in the United States and 42 DMFs in Europe. As of September 30, 2006, we had 9 NCEs in various stages of development including 5 in clinical development. As of September 30, 2006, we also had 10 biogenerics products in various stages of development.

Management strength and vision. We have assembled a strong and experienced management team with global business and technical expertise. Management s experience and vision will enable us to become a discovery-led global pharmaceutical company.

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OUR PRINCIPAL AREAS OF OPERATIONS

The following table shows our revenues and percentage of total revenues of our formulations, active pharmaceutical ingredients and intermediates, generics, critical care and biotechnology, drug discovery and custom pharmaceutical services segments for fiscal 2004, 2005, 2006 and the three months ended June 30, 2006, respectively:

	Fiscal Year Ended March 31,								Three Months En	
	2004		2005		2006				2006	
	(Rs. in millions, U.S.$ in thousands)									
Rs.	7,507.5	37.3%	Rs. 7,822.9	40.1%	Rs. 9,925.9	40.9%	U.S.$	223,155.5	Rs. 3,336.8	23.7
l										
	7,628.5	38.0	6,944.5	35.6	8,238.0	34.0		185,208.1	2,300.8	16.4
	4,337.5	21.6	3,577.4	18.3	4,055.8	16.7		91,181.7	6,737.2	48.0
	411.0	2.0	527.1	2.7	691.1	2.8		15,536.7	198.0	1.4
			288.4	1.5					25.3	0.2
al										
	113.1	0.6	311.6	1.6	1,326.8	5.5		29,829.8	1,418.3	10.1
	105.9	0.5	47.5	0.2	29.4	0.1		660.3	33.0	0.2
Rs.	20,103.5	100.0%	Rs. 19,519.4	100.0%	Rs. 24,267.0	100.0%	U.S.$	545,572.1	Rs. 14,049.4	100.0

Formulations Segment

Formulations, also referred to as branded finished dosages, are finished pharmaceutical products ready for consumption by the patient. Branded means we package the formulations for sale under our brand name. We sell branded formulations in India, Russia and other emerging markets. Formulations accounted for 40.9% of our revenues in fiscal 2006 and 23.7% of our revenues in the three months ended June 30, 2006.

Markets

We export our branded formulations to over 40 countries worldwide. Our major markets in this segment are India, Russia and other countries of the former Soviet Union, Central Eastern Europe, Southeast Asian countries and Latin America. We have also expanded our presence in emerging markets, such as Romania, Albania, South Africa, Peru and in the Middle East region. We have progressively increased the number of countries in which we market our formulations by registering our products in various markets around the world. During fiscal 2006, we filed 508 new product dossiers in various countries around the world. During the three months ended June 30, 2006, we filed 74 new product dossiers in various countries around the world. Our formulations portfolio includes brands covering several therapeutic segments. We launched 50 new products in the past 30 months.

The following table sets forth formulations revenues by geographic area for fiscal 2004, 2005, 2006 and the three months ended June 30, 2006, respectively:

	Fiscal Year Ended March 31,	Three Months Ended Ju

2004		2005		2006			2006	
Revenues (In millions)	% Total[(1)]	Revenues (In millions)	% Total[(1)]	Revenues (In millions)		% Total[(1)]	Revenues (In millions)	
Rs. 4,729.3	63.0%	Rs. 4,360.2	55.7%	Rs. 5,525.7	U.S.$ 124.2	55.7%	Rs. 1,615.1	U.S.$ 35.2
1,781.8	23.7	2,107.2	26.9	2,583.2	58.1	26.0	1,097.2	23.9
184.2	2.5	257.8	3.3	413.4	9.3	4.2	215.0	4.7
154.5	2.1	183.7	2.3	239.4	5.4	2.4	49.2	1.1
82.0	1.1	102.6	1.3	192.3	4.3	1.9	100.5	2.2
100.2	1.3	140.1	1.8	156.4	3.5	1.6	51.2	1.1
		52.1	0.7	142.0	3.2	1.4	45.3	1.0
56.7	0.8	73.5	0.9	95.0	2.1	1.0	16.5	0.4
70.4	0.9	96	1.2	55.6	1.3	0.6	37.2	0.8
47.6	0.6	68.1	0.9	81.4	1.8	0.8		
300.8	4	381.6	4.9	441.5	9.9	4.4	109.6	2.4
Rs. 7,507.5	100.00%	Rs. 7,822.9	100.00%	Rs. 9,925.9	U.S.$ 223.1	100.00%	Rs. 3,336.80	U.S.$ 72.7

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

India. Our revenues from sales of formulations in India were 55.7% and 48.4% of our total formulations sales for fiscal 2006 and three months ended June 30, 2006 respectively. In India, our formulations business focuses mainly on the therapeutic categories of cardiovascular, diabetes management, gastro-intestinal and pain management. As of June 30, 2006, we had a total of 123 brands. Our top ten brands together accounted for 51.9% of our formulations revenues in India for three months ended June 30, 2006. Our sales of formulations in India grew at 15.9% for the three months ended June 30, 2006 as compared to the industry average growth of 15.8% according to Operations Research Group International Medical Statistics (ORG IMS), a market research firm, in its March Moving Annual Total report for the 12-month period ending June 2006. According to ORG IMS, as of June 2006, we had 41 brands that were ranked either first or second in terms of sales in India in their respective product categories. According to the Center for Marketing and Advertising Research Consultancy (CMARC) report for the period March 2006 to June 2006, which measures doctors prescriptions, we were the sixth most prescribed company in India.

New product launches during the three months ended June 30, 2006 accounted for 2.2% of our revenues from sales of formulations in India. Key product launches included Becelace forte, our brand of Lactobacillus+B Complex and Leon, our brand of Levofloxacin. In the last 30 months, we have launched about 50 new products including line extensions.

The following table provides a summary of our sales in India in our therapeutic categories for fiscal 2004, 2005, 2006 and the three months ended June 30, 2006, respectively:

	Fiscal Year Ended March 31,												Three Mo		
	2004			2005			2006								
	Revenues		% (2)	Number of Our Products	Revenues	% (2)	Number of Our Products (3)	Revenues			% (2)	Number of Our Products (3)			(i
	(In millions)				(In millions)			(In millions)							
Rs.	928.3		19.6	35	Rs. 937.6	21.5	32	Rs. 1,094.1	U.S.$	24.6	19.8	35	Rs.		32
	1,015.00		21.5	38	902	20.7	33	1,037.50		23.3	18.8	33			32
	783.6		16.6	19	713.7	16.4	19	781.6		17.6	14.1	19			23
	301.1		6.4	21	297.9	6.8	24	458.5		10.3	8.3	25			12
	301.3		6.4	16	243.9	5.6	14	313.8		7.1	5.7	14			8
	439.1		9.3	19	324.1	7.4	16	295.9		6.7	5.4	21			9
	206.1		4.4	16	206.5	4.7	18	253.5		5.7	4.6	17			6
	173.2		3.7	22	177.3	4.1	21	220.4		5	4	21			6
	96.6		2	17	131.5	3	14	148.7		3.3	2.7	18			5
	206.6		4.4	14	177.5	4.1	11	140.2		3.2	2.5	12			3
	116		2.5	7	110.9	2.5	8	124.1		2.8	2.2	9			3
	162.4		3.4	10	137.3	3.1	25	657.4		14.8	11.9	35			17
Rs.	4,729.3		100%	234	Rs. 4,360.2	100%	235	Rs. 5,525.7	U.S.$	124.4	100%	259	Rs.	1,61	

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

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

(3) Products of the same strength sold in different packs have been re-grouped as one product in fiscal 2006.

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The following tables summarize the position of our top 10 brands in the Indian market for fiscal 2004, 2005, 2006 and the three months ended June 30, 2006 respectively:

Brand	Therapeutic Category	Therapeutic Sub-Category[1]	Rank of our Brand Within Product Category[1]	Market Share of Our Brand Within Product Category[2]	Brand Growth[3]
Nise	Pain management	Non-steroidal anti-inflammatory	1	23.9%	6.98%
Omez	Gastro-intestinal	Anti-ulcerant	1	45.2	12.6
Stamlo	Cardiovascular	Anti-hypertensive	1	24.2	4.1
Stamlo beta	Cardiovascular	Anti-hypertensive	2	14.0	12.4
Enam	Cardiovascular	Anti-hypertensive	2	26.0	(3.6)
Atocor	Cardiovascular	Lipid lowering agent	3	8.8	26.8
Razo	Gastro-intestinal	Anti-ulcerant	3	9.5	42.6
Reclimet	Diabetes management	Sulphonylurea anti-diabetic	4	7.9	12.3
Clamp	Anti-infectives	Anti-infectives	4	12.8	0.4
Mintop	Dermatology	Alopecia	1	73.9	1.2

(1) Therapeutic sub-categories are the specific groups within each therapeutic category and product categories are the compound groups within each therapeutic sub-category. Source: Operations Research Group March 2006.

(2) Refers to the brand s revenues from sales in India expressed as a percentage of our total revenues from sales in all of our therapeutic categories in India for fiscal 2006.

(3) Revenue growth determined based on retail sales over the corresponding 12-month period for the previous year. Source: Operations Research Group March 2006.

Brand	Fiscal Year Ended March 31, 2004	2005	2006		%Total[1]	Three Months Ended June 30, 2006		%Total[1]
	(In millions)					(In millions)		
Nise	Rs. 655.6	Rs. 537.9	Rs. 736.0	U.S.$ 16.5	13.3%	Rs. 214.83	U.S.$ 4.68	13.3%
Omez	622.6	528.1	690.8	15.5	12.5	213.85	4.66	13.2
Stamlo	293.2	298.2	339.7	7.6	6.1	107.94	2.35	6.7
Stamlo Beta	187.7	186.7	262.8	5.9	4.8	69.36	1.51	4.3
Enam	163.9	162.1	172.7	3.9	3.1	47.10	1.03	2.9
Atocor	100.6	115.8	167.2	3.8	3	44.98	0.98	2.8
Razo	49.7	65.2	127.3	2.9	2.3	50.81	1.11	3.1
Reclimet	73.3	79.1	123.7	2.8	2.2	34.42	0.75	2.1
Clamp	106.5	100.6	118.3	2.7	2.1	26.74	0.58	1.7
Mintop	99.1	98.4	109.1	2.5	2	27.77	0.61	1.7

Total	Rs. 2,352.2	Rs. 2,172.1	Rs. 2,847.6	U.S.$ 64.1	51.4%	Rs. 837.80	U.S.$ 18.26	51.9%		

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

Russia. Russia is our largest international market in our formulations business and our sales of formulations in this market accounted for 26.0% and 32.9% of our revenues in the formulations segment in fiscal 2006 and the three months ended June 30, 2006. Pharmexpert, a market research firm, ranked us number 18 in sales in Russia with a market share of 1.21% as of March 2006 in its moving annual total report for first quarter 2006 (the MAT Q1 2006 Report). Pharmexpert also reported that the market growth during fiscal 2006 was 20.13%. All of the companies ranked ahead of us by Pharmexpert were either multinational corporations or of European origin. Accordingly, we were the top ranked Indian pharmaceutical company in Russia. Pharmexpert, ranked us number 8 in sales in Russia in the retail prescription segment as of June 2006 in its moving annual total report for second quarter 2006 (the MAT Q2 2006 Report).

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The following table provides a summary of our revenues in Russia by therapeutic category for fiscal 2004, 2005, 2006 and the three months ended June 30, 2006, respectively:

Fiscal Year Ended March 31,												Three Mont
2004			2005			2006						
Revenues (In millions)	% Total(1)	Number of Products	Revenues	% Total(1)	Number of Products	Revenues			% Total(1)	Number of Products		Rev
						(In millions)						(In m
. 477.4	26.80%	9	Rs. 660.3	31.30%	9	Rs. 929.6	U.S.$	20.9	36.00%	9	Rs.	395.1
435.4	24.4	7	505.1	24	6	546.5		12.3	21.2	6		198.7
400.2	22.5	2	493	23.4	3	608.6		13.7	23.6	3		268.2
338.2	19	4	306.2	14.5	4	288.9		6.5	11.2	4		107.9
92.7	5.2	4	96.4	4.6	4	142.4		3.2	5.5	4		76.6
37.9	2.1	7	46.2	2.2	6	67.1		1.5	2.6	6		50.7
. 1,781.8	100.00%	33	Rs. 2,107.2	100.00%	32	Rs. 2,583.1	U.S.$	58.1	100.00%	32		1,097.2

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

The following table provides a summary of our principal products in the Russian market for fiscal 2004, 2005, 2006 and the three months ended June 30, 2006, respectively:

	Fiscal Year Ended March 31,							Three Months Ended June 30,		
	2004		2005		2006					2006
eutic Category	Revenues (In millions)	%Total(1)	Revenues (In millions)	%Total(1)	Revenues		%Total(1)	Revenues		
					(In millions)			(In millions)		
ntestinal	Rs.394.6	22.10%	Rs.488.7	23.20%	Rs.603.5	U.S.$ 13.6	23.40%	Rs.262.61	U.S.$	
ectives	385	21.60%	450.2	21.40%	484.7	10.9	18.80%	168.98		
nagement	263.1	14.80%	339.3	16.10%	511.9	11.5	19.80%	188.21		
nagement	185.6	10.40%	296.8	14.10%	379.2	8.5	14.70%	196.47		
	1,228.30	68.90%	1,575.00	74.70%	1,979.30	44.5	76.60%	Rs.816.27	U.S.$	

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

Our top four brands, Omez, Ciprolet, Ketorol and Nise, accounted for 76.6% and 74.4% of our formulation revenues in Russia in fiscal 2006 and three months ended June 30, 2006 respectively. Omez, our anti-ulcerant product and Ciprolet, our product in the anti-infective segment, are ranked as the 34th and 69th best selling formulation brands, respectively, in the Russian market as of March 2006 by Pharmexpert in its MAT Q1 2006 Report. Nise has also entered Pharmexpert s top 100 rankings ranked at number 95 and has become the top selling non-steroidal anti-inflammatory drug on the Russian pharmaceutical market for the year ended December 2005, according to the Pharmexpert MAT Q1 2006 Report.

Our strategy in Russia is to focus on the therapeutic areas of gastro-intestinal, pain management, anti-infectives and cardiovascular. Our focus is on building brand leaders in these therapeutic segments. Omez, Ciprolet, Enam and Nise continued to be brand leaders in their respective categories, as reported by the Pharmexpert MAT Q1 2006 Report.

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

Our growth was also due to the Russian government s implementation in January 2005 of the Dopolnitelnoye Lekarstvennoye Obespechenoye (DLO) program, pursuant to which the Russian government purchases drugs for free distribution to low income individuals. Our products Cirplet 500 mg, Enam 2.5 mg, Enam 5 mg, Ketorol Tab, Ketorol Inj, Nise 500 mg, Cetrine and Finast are listed in the directory of drugs eligible for purchase under the DLO program. Our revenues from sales to the Russian government under the

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DLO program for fiscal 2006 and three months ended June 30, 2006 were Rs.174.4 million and Rs. 33.08 million respectively.

During fiscal 2006, we reorganized our Russian sales force into a hospital division and an OTC division. The hospital division has six hospital specialists and nine key account managers focused on expanding our present network of relationships with hospitals and institutes. The OTC division has 29 medical representatives whose focus is to establish a network of relationships with OTC distributors in preparation for future OTC product launches.

Other Markets. We have operations in former Soviet Union countries other than Russia, including Ukraine, Kazakhstan, Belarus and Uzbekistan. We also have operations in other emerging markets, such as Venezuela, Vietnam, South Africa, Romania and Myanmar. Our export of formulations to these countries accounted for 13.9% and 15.6% of the revenues in our formulations segment in fiscal 2006 and three months ended June 30, 2006, respectively.

In South Africa, we market through our consolidated subsidiary, Dr. Reddy s Laboratories (Proprietary) Limited (DRLPL). As of March 31, 2006, we held a 60% equity interest in DRLPL. We currently market three products through DRLPL in South Africa and have 17 products pending registration. During fiscal 2006, we launched Lamotrigene tablets in South Africa through an in-licensing arrangement.

In China, we market through our equity investee, Kunshan Rotam Reddy Pharmaceuticals Co. Limited (KRRP or Reddy Kunshan). As of March 31, 2006, we held a 51.2% equity interest in KRRP. We currently market eight products through KRRP in China and have five products pending registration. During fiscal 2006, KRRP sold one product license and also obtained approval for one new product license, which was not yet commercialized as of March 31, 2006. Also, we opened a representative office in China during fiscal 2006 to expand our presence there.

Sales, marketing and distribution network

India. We generate demand for our products by promoting them to doctors who prescribe them, and meeting with pharmacists to ensure that the pharmacists stock our brands. Our focus on brand building is thus primarily driven through efforts to build relationships with the medical community. While we do not sell directly to doctors or pharmacists, our approximately 1,589 field personnel frequently visit doctors and pharmacists throughout the country to promote our products. In addition, we sponsor medical conferences in different parts of the country and conduct seminars for doctors. During fiscal 2006 and the three months ended June 30, 2006, we increased our sales personnel in India by 229 and 58 respectively.

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

Russia. In Russia, we sell our formulations to some of the principal national distributors directly as well as through our wholly-owned subsidiary located in Russia, OOO Dr. Reddy s Laboratories Limited, Russia. Our sales and marketing efforts are driven by a team of 132 marketing representatives, 15 regional managers, 4 zone managers and 15 key account managers to promote our products to doctors in 48 cities in Russia. During fiscal 2006, we have increased our sales personnel in Russia by 17.

In the Russian market, credit is generally extended only to customers after they have established a satisfactory history of payment with us. The credit ratings of these customers are based on turnover, payment record and the number of the customers branches or pharmacies and are reviewed on a periodic basis. There were no material changes in the credit terms which we extended to our major customers during fiscal 2006.

Other Markets. In other markets, our key focus markets are South Africa, China, Kazakhstan, Uzbekistan, Ukraine, Belarus, Vietnam, Romania, Venezuela and Sri Lanka where we have our own sales

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personnel to promote our products. In South Africa, we sell our products to wholesale distributors, dispensing doctors and retail pharmacies. In China, where we market through KRRP, we have 85 (as of March 31, 2006) marketing representatives covering hospitals. In several of these markets, we market and distribute through local agents. We also have representative offices in several of these countries.

Manufacturing and Raw Materials

As of June 30, 2006, we had four facilities for the manufacture of formulation products, all of which are situated in India. In April 2006, we completed the construction of a new facility at Baddi in the state of Himachal Pradesh, India. We have started manufacturing our key brands at the Baddi facility to take advantage of certain financial benefits offered by the government of India to encourage industrial growth in the state of Himachal Pradesh, which include exemption from income tax and excise duty for a specified period. We manufacture most of our finished products at these facilities and also use third-party manufacturing facilities as we determine necessary. For each of our products, we endeavour to identify alternate suppliers of our products and the processes applicable to our products. The main difference between active pharmaceutical ingredients as compared to formulations and generics is the form in which they are produced and the way they are packaged. Active pharmaceutical ingredients are manufactured and distributed in bulk. In formulations and generics, these bulk ingredients are converted into finished dosages by adding other ingredients, called excipients, and packaged into individual doses that are ready for consumption by the patient. In fiscal 2006 and the three months ended June 30, 2006, our active pharmaceutical ingredients and intermediates business provided 34.2% and 30.6%, respectively, of the active pharmaceutical ingredients and intermediates requirements of our formulations business, with the balance coming from various other suppliers.

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

Our manufacture of formulations is subject to strict quality and contamination controls throughout the manufacturing process. Each production line consists of a series of rooms through which the product passes at different stages of its conversion to a finished dosage. In our facilities, we manufacture formulations in various dosage forms including tablets, capsules, injections and liquids. These dosage forms are then packaged and quarantined to be tested for quality and contamination. The Ministries of Health of Sudan, Brazil, Latvia and Romania have inspected some of our manufacturing plants. One of our facilities also has the approval of the U.K. Medicines and Health Care Products Regulatory Agency (MHRA).

Competition

We compete with different companies in different countries, depending upon therapeutic and product categories, and within each category upon dosage strengths and drug delivery. On the basis of sales, we are the seventh largest pharmaceutical seller in India, with a market share of 2.4% according to the ORG IMS March Moving Annual Total report for the 12-month period ending March 2006. Of the top ten participants in the Indian formulations market, three are multinational corporations and the rest are Indian corporations.

The business opportunities in India are on the rise and the Indian pharmaceutical business environment underwent considerable changes in fiscal 2006. Some of the most significant changes in the industry are as follows:

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

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

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

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

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

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

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

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

Government regulations

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

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

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

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

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

MoH approval of an application is required before a generic equivalent of an existing or referenced brand drug can be marketed. When processing a generics application, the MoH waives the requirement of conducting complete clinical studies, although it normally requires bioavailability and/or bioequivalence studies. Bioavailability indicates the rate and extent of absorption and levels of concentration of a drug product in the blood stream needed to produce a therapeutic effect. Bioequivalence compares the bioavailability of one drug product with another, and when established, indicates that the rate of absorption and levels of concentration of the active drug substance in the body are the equivalent for the generic drug and the previously approved drug. A generic application may be submitted for a drug on the basis that it is the equivalent of a previously approved drug. Before approving a generic product, the MoH

also requires that our procedures and operations conform to Current Good Manufacturing Practice (cGMP) regulations, relating to good manufacturing practices as defined by various countries. We must follow the cGMP regulations at all

times during the manufacture of our products. We continue to spend significant time, money and effort in the areas of production and quality testing to help ensure full compliance with cGMP regulations.

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

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

On March 22, 2005, the government of India passed the Patents (Amendment) Act 2005 (the Amendment), introducing a product patent regime for food, chemicals and pharmaceuticals in India. The Amendment specifically provides that new medicines (patentability of which is not specifically excluded) for which a patent has been applied for in India on or after January 1, 1995 and for which a patent is granted cannot be manufactured or sold in India by other than the patent holder and its assignees and licensees. This will result in a reduction of the new product introductions in India, as well as other countries where similar legislation has been introduced, for all Indian pharmaceutical companies engaged in the development and marketing of generic finished dosages and APIs. Processes for the manufacture of APIs and formulations were patentable in India even prior to the Amendment, so no additional impact is anticipated from patenting of such processes.

Active Pharmaceutical Ingredients and Intermediates Segment

Our active pharmaceutical ingredients and intermediates business contributed 34.0% and 16.4% of our total revenues for fiscal 2006 and the three months ended June 30, 2006, respectively. Active pharmaceutical ingredients are the principal ingredients for finished dosages and are also known as bulk actives or bulk drugs. Active pharmaceutical ingredients become formulations when the dosage is prepared for human consumption in the form of a tablet, capsule or liquid using additional inactive ingredients. Intermediates are the compounds from which active pharmaceutical ingredients are prepared. We produce and market more than 100 different active pharmaceutical ingredients and intermediates in several markets. We export active pharmaceutical ingredients to emerging as well as developed markets covering over 80 countries. Our principal markets in this business segment include North America and Europe, which together contributed 37.4% of this segment s revenues in fiscal 2006 and the three months ended June 30, 2006, respectively. Our active pharmaceutical ingredients and intermediates business is operated independently from our formulations and generics businesses and, in addition to supplying API to our formulations and generics businesses, we sell APIs to third parties for use in creating generic products, subject to any patent rights of other third parties. Our active pharmaceutical ingredients business also manufactures and supplies all of the API required in our custom pharmaceutical services business. The research and development group within the active pharmaceutical ingredients and intermediates segment contributes to our business by creating intellectual property (principally with respect to novel and non-infringing manufacturing processes and intermediates), providing research intended to reduce the cost of production of our products and developing approximately 15-20 new products every year.

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The following table sets forth active pharmaceutical ingredients and intermediates revenues by geographic area for fiscal 2004, 2005, 2006 and the three months ended June 30, 2006, respectively:

	Fiscal Year Ended March 31,							Three Months Ended June	
	2004		2005		2006			2006	
	Revenues (In millions)	% Total(1)	Revenues (In millions)	% Total(1)	Revenues (In millions)		% Total(1)	Revenues (In millions)	Tot
ging markets	**Rs.**		**Rs.**		**Rs.**	**U.S.$**		**Rs.**	**U.S.$**
	2,115.1	27.7	1,972.1	28.4	2,296.4	51.6	27.8	625.1	13.6
adesh	94.1	1.2	127.4	1.8	265.7	6.0	3.2	61.7	1.4
countries	1,847.5	24.2	1,841.8	26.5	2,558.9	57.5	31.1	739.6	16.1
emerging ts	4,056.7	53.2	3,941.3	56.8	5,121.0	115.1	62.1	1,426.4	31.1
oped markets									
America	1,902.9	24.9	1,849.0	26.6	1,655.0	37.2	20.1	420.4	9.2
e	1,626.9	21.3	1,091.1	15.7	1,420.9	31.9	17.3	439.1	9.6
	42.0	0.6	63.1	0.9	41.1	0.9	0.5	14.9	0.3
developed ts	3,571.8	46.8	3,003.2	43.2	3,117.0	70.1	37.9	874.4	19.1
	7,628.5	100.0	6,944.5	100.0	8,238.0	185.2	100.0	2,300.8	50.2

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

The following table sets forth the sales of our key active pharmaceutical ingredients and intermediates for fiscal 2004, 2005, 2006 and the three months ended June 30, 2006, respectively:

		Fiscal Year Ended March 31,							Three M
		2004		2005		2006			
		Revenues (In millions)	%Total(1)	Revenues (In millions)	%Total(1)	Revenues (In millions)		%Total(1)	R (In
tegory	**Sub-Category**								
ti-infective	Anti-bacterial	Rs. 959.8	12.6	Rs. 619.1	8.9	Rs. 778.5	U.S.$ 17.4	9.5	Rs. 303.
rdiovascular	Anti-hypertensive	1314.2	17.2	783.4	11.3	642.5	14.4	7.8	187.
stro-intestinal	Anti-ulcerant	711.4	9.3	734.3	10.6	552.8	12.4	6.7	126.
ti-infective	Anti-fungal	124.9	1.6	194.5	2.8	537.2	12.0	6.5	105.
n management	Analgesic	394.6	5.2	460.5	6.6	502.3	11.3	6.1	76.

rdiovascular	Anti-hypertensive	178.4	2.3	138.2	2.0	494.1	11.1	6.0	225.
n management	Anti-inflammatory	437.3	5.7	470.0	6.8	380.4	8.5	4.6	141.
n management	Anti-inflammatory	233.8	3.1	229.6	3.3	375.0	8.4	4.6	80.
rdiovascular	Lipid-lowering agent	211.2	2.8	252.5	3.6	321.1	7.2	3.9	28.
spiratory	Anti-allergic	29.8	0.4	52.6	0.8	241.1	5.4	2.9	58.
rdiovascular	Anti-hypertensive	214.2	2.8	180.5	2.6	172.7	3.9	2.1	52.
ti-infective	Anti-bacterial	197.1	2.6	117.5	1.7	168.2	3.8	2.0	29.
stro-intestinal	Anti-ulcerant	159.6	2.1	216.8	3.1	160.9	3.6	2.0	36.
rdiovascular	Anti-platelet agent	140.3	1.8	79.6	1.1	139.9	3.1	1.7	56.
spiratory	Anti-allergic	182.8	2.4	165.8	2.4	134.9	3.0	1.6	35.

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

Sales, Marketing and Distribution

Emerging Markets. India is the single largest market in this region, contributing 27.8% and 27.2% to the segment s revenues in fiscal 2006 and the three months ended June 30, 2006, respectively. In India, we market our active pharmaceutical ingredients to Indian and multinational companies who are also our competitors in our formulations segment.

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

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

Our sales to other emerging markets were Rs.2,824.6 million and Rs.801.3 million for fiscal 2006 and the three months ended June 30, 2006, respectively. Our key emerging markets include Bangladesh, South Korea, China, Taiwan, Argentina, Brazil, Mexico, Turkey, Egypt, Saudi Arabia, South Africa and Kenya. While we work through our agents in these markets, our zonal marketing managers also interact directly with our key customers in order to service their requirements. Our strategy is to build relationships with top customers in each of these markets and partner with them in product launches by providing timely technical and analytical support.

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

As of March 31, 2006, we had 81 DMFs on file in the United States. As of March 31, 2006, we had filed 41 DMFs in Europe and had 18 certificates of suitability granted by European authorities. For most of these, we are either already supplying commercial quantities or development quantities of API to various generic formulators. In the three months ended June 30, 2006, we filed two DMFs in the United States, three DMFs in Europe and received one certificates of suitability granted by European authorities.

Manufacturing and Raw Materials

We have seven facilities for the manufacture of our APIs. Six of these facilities have been inspected by the U.S. FDA and follow cGMP. All of these facilities are situated in the state of Andhra Pradesh, India. Six of these facilities have ISO 9001 certification, which is valid until December 5, 2006, at which time we will be reinspected. With over 500 reactors of different sizes offering 1.8 million litres of reaction volume annually, we have the flexibility to produce quantities that range from a few kilograms to several metric tons. The manufacturing process consumes a wide variety of raw materials that we obtain from sources that comply with the requirements of regulatory authorities in the markets to which we supply our products. We procure raw materials on the basis of our requirement planning cycles. We utilize a broad base of suppliers in order to minimize risk arising from dependence on a single supplier. Where possible, we have also entered into annual quantity and price contracts to reduce possible supply risks and minimize costs. Our generics business sourced approximately 72.2% and 56.6% of their API purchases from our active pharmaceutical ingredients and intermediates segment in fiscal 2006 and the three months ended June 30, 2006, respectively. Our formulations business sourced approximately 34.2% and 30.6% of their API purchases from our active pharmaceutical ingredients and intermediates segment in fiscal 2006 and the three months ended June 30, 2006, respectively. We also outsource the manufacturing of some of our APIs to third-party manufacturers. The active pharmaceutical ingredients and intermediates segment also sources several APIs from third party suppliers for the emerging markets to optimally utilize the in-house manufacturing capacities for the developed markets, which are more profitable relative to the emerging markets. During fiscal 2006, 8.5% of our total revenues resulted from sale of APIs procured from third-party suppliers. We maintain stringent quality controls when procuring materials from

third-party suppliers.

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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 with respect to the qualification process and intellectual property rights. The regulated markets, like the United States and Europe, have high regulatory entry barriers in terms of cGMP and approved facilities. As a result, there is a premium for quality and regulatory compliance along with relatively greater stability for both volumes and prices.

During fiscal 2006, the competitive environment for the API industry underwent significant changes. These changes included increased competition from companies based in India and China and increasing trends of consolidation in the global generics industry, with some of the key generics companies beginning to strengthen their in-house API development capabilities.

We compete with a number of manufacturers within and outside India, which vary in size. Our main competitors in this segment are Hetero Drugs Limited, Divi s Laboratories Limited, Shasun Chemicals and Drugs Limited, Aurobindo Pharma Limited, Ranbaxy Laboratories Limited, Cipla Limited, Matrix Laboratories Limited and Biocon India Limited, all based in India. In addition, we experience competition from European and Chinese manufacturers, as well as from Teva Pharmaceuticals Industries Limited, based in Israel.

Government regulations

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

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

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

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

Generics Segment

Generic drugs are the chemical and therapeutic equivalents of reference brand drugs, typically sold under their generic chemical names at prices below those of their brand drug equivalents. Generic drugs are finished pharmaceutical

products ready for consumption by the patient. Our generic products are marketed principally in North America and Europe. These drugs are required to meet governmental standards that are similar to those applicable to their brand-name equivalents and must receive regulatory approval prior to their sale in any given country.

Our generics operations started in the second half of fiscal 2001. This segment accounted for 16.7% of our total revenues for fiscal 2006, contributing Rs.4,055.8 million. Revenues from sales of omeprazole

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capsules in the United Kingdom accounted for 19.4% of our total revenues in this segment in fiscal 2006. Significant product launches in fiscal 2006 included glimepiride tablets and zonisamide tablets in the United States and terbinafine tablets in the United Kingdom. This segment accounted for 48.0% of our total revenues for the three months ended June 30, 2006, contributing Rs.6,737.2 million.

In fiscal 2006, revenues in this segment were Rs.2,421.5 million from sales in Europe, Rs.1,630.6 million from sales in North America and Rs.3.7 million from sales in the rest of the world. Revenue from Europe includes Rs.704.9 million of revenue from betapharm in Germany (starting March 3, 2006). In the three months ended June 30, 2006, revenues in this segment were Rs.2,432.88 million from sales in Europe, Rs.4,304.10 million from sales in North America and Rs.0.2 million from sales in the rest of the world. Revenue from Europe includes Rs.1, 997.62 million of revenue from betapharm in Germany.

The following table sets forth the sales of our principal generics finished dosages for fiscal 2004, 2005, 2006 and the three months ended June 30, 2006, respectively:

Therapeutic	Therapeutic	Fiscal Year Ended March 31, 2004		2005		2006			Three
Category	Sub-Category	Revenues (In millions)	% Total[1]	Revenues (In millions)	% Total[1]	Revenues (In millions)	Revenues (In millions)	% Total[1]	Revenue (In millio
tral nervous em	Anti-psychotic	Rs.1,898.4	43.8	Rs.928.5	26.0	Rs.373.8	U.S.$ 8.4	9.2	Rs.100.
management	Analgesic	184	4.2	198.7	5.6	235.1	5.3	5.8	27.
tro-intestinal	Anti-ulcerant	205.8	4.7	194.0	5.4	225.9	5.1	5.6	65.
tro-intestinal	Anti-ulcerant	143.4	3.3	141.1	3.9	156.1	3.5	3.9	37.
tral nervous em	Anti-psychotic		0.0	201.6	5.6	143.4	3.2	3.5	59.
-infective	Anti-bacterial	1.6	0.0	166.1	4.6	135.3	3.0	3.3	40.
sticity	Muscle relaxant	591.1	13.6	206.2	5.8	62.8	1.4	1.6	33.
tro-intestinal	Anti-ulcerant	167.3	3.9	84.9	2.4	27.9	0.6	0.7	10.
dio-vascular	Lipid lowering								2,984
piratory	Anti-allergic								368
logy	Benign prostatic hyperplacia								503
		3,191.6	73.5	2,121.1	59.3	1,360.3	30.5	33.6	4,232
tro-intestinal	Anti-ulcerant	325.3	7.5	434.1	12.1	786.3	17.7	19.4	189.
diovascular	Anti-hypertensive	17.7	0.4	219.9	6.1	371.5	8.4	9.2	91.
		343.0	7.9	654.0	18.2	1,157.8	26.1	28.6	281.

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

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

Generic pharmaceutical sales have increased significantly in recent years, due in part to an increased awareness and acceptance among consumers, physicians and pharmacists that generic drugs are the equivalent of brand-name drugs. Among the factors contributing to this increased awareness are the passage of legislation permitting or encouraging substitution and the publication by regulatory authorities of lists of equivalent drugs, which provide physicians and pharmacists with generic drug alternatives. In addition, various government agencies and many private managed care or insurance programs encourage the substitution of generic drugs for brand-name pharmaceuticals as a cost-savings measure in the purchase of, or reimbursement for, prescription drugs. We believe that these factors, together with the large volume of branded products losing

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patent protection over the coming years, should lead to continued expansion of the generic pharmaceuticals market as a whole. We intend to capitalize on the opportunities resulting from this expansion of the market by leveraging our product development capabilities, manufacturing capacities inspected by various international regulatory agencies and access to our own APIs, which offer significant supply chain efficiencies.

Through the coordinated efforts of our teams in the United States, Europe and India, we constantly seek to expand our pipeline of generic products. As of March 31, 2006, our U.S. generics pipeline included 50 ANDA applications pending approval at the U.S. FDA. As of March 31, 2006, we had received 13 product approvals from the U.S. FDA and 10 tentative product approvals (tentative approvals do not allow us to market the generic product and are not converted to final approvals until all patent or exclusivity issues for the reference listed drug product have been resolved). As of March 31, 2006, we had received six product approvals in Europe (products approvals have been filed in one or more of the United Kingdom, Germany or France, and once approval in one of these countries is obtained, we have the ability to obtain approvals in other countries of the European Union as applicable patents expire in those countries), four product approvals in South Africa, two product approvals in Canada and one product approval in each of Australia and New Zealand. During fiscal 2005, we entered into an agreement with I-VEN for the joint development and commercialization of generic drug products for the U.S. markets. The agreement gives I-VEN the right to fund up to fifty percent of the project costs (development, registration and legal costs) related to these products and the related U.S. ANDA filed or to be filed in 2004-05 and 2005-06, subject to a maximum funding right of U.S.$56.0 million. As of June 30, 2006, our U.S. generics pipeline included 55 ANDA applications pending approval at the U.S. FDA. As of June 30, 2006, we had received 22 product approvals from the U.S. FDA and 9 tentative product approvals. As of June 30, 2006, we had received 8 product approvals in Europe (products approvals have been filed in one or more of the United Kingdom, Germany or France, and once approval in one of these countries is obtained, we have the ability to obtain approvals in other countries of the European Union as applicable patents expire in those countries), 13 product approvals in South Africa, 4 product approvals in Canada and 1 product approval in each of Australia and New Zealand. As of September 30, 2006, in Europe, we had 23 product filings pending registration.

The following table sets forth the status of our principal ANDAs involving patent challenges.

Generic Innovator Brand	IMS December 2005 Innovator Sales, U.S.$ Million	Current Status
Olanzapine (Eli Lilly s Zyprexa®)	816 (20 mg & ODT)	District court decision in favor of Eli Lilly; Awaiting decision of Federal Circuit
Ondansetron (GSK s Zofran®)	614	Awaiting FDA approval; MOU Patent expires in December 2006
Sumatriptan (GSK s Imitrex®)	836	Settled Para IV with GSK, awaiting FTC clearance; Authorized Generic launch in late Q4CY08 ahead of patent expiry in Feb 2009
Finasteride tablets 1 mg (Merck s Propecia®)	138	Final approval received; patent expiry in Nov 2013. Settlement with Merck for early entry launch
Risperidone tablets (Janssen s Risperdal®)	2,218	District Court upheld patent validity. Appeal process under evaluation
Levetiracetam tablets (UCB s Keppra®)	492	Sued in April 2004; Discovery in progress
Rosiglitazone Maleate (GSK s Avandia®)	1,870	Sued in September 2003 (shared exclusivity); Awaiting a trial date

Rabeprazole Sodium (Eisai s Aciphex®)	1,198	Sued in November 2003 (shared exclusivity) Motion for summary judgment denied on certain arguments of Teva; Trial scheduled for March 2007
Moxifloxacin HCI (Bayer s Avelox®)	261	Awaiting District Court decision
Rivastigmine Tartrate (Novartis Exelon®)	216	Sued in August 2004 (shared exclusivity)

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Sales, Marketing and Distribution Network

North America. Dr. Reddy s Laboratories, Inc., our wholly-owned subsidiary in the United States, is engaged in the marketing of our generic products in North America. In early 2003, we commenced sales of generic products under our own label. We have our own sales and marketing team to market these generic products. We have been successful in launching several of our generic products immediately on the expiry of the relevant patents. During fiscal 2006, we launched glimepiride tablets, zonisamide capsules, fluoxetine capsules, ranitidine capsules, enalapril/hydrochlorothiazide tablets, famotidine tablets and tizanidine tablets. Key account representatives for generic products call on purchasing agents for chain drug stores, drug wholesalers, health maintenance organizations and pharmacy buying groups. They also contact retail pharmacy chains and support the retailer s selling efforts with exhibits at key medical and pharmaceutical conventions. During the three months ended June 30, 2006, we launched fexofenadine and authorized generic versions of Proscar® and Zocor®.

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

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

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

We market famotidine 10 mg tablets and ranitidine 75 mg tablets through Leiner Health Products, LLC (Leiner). In 2002, we entered into a 15-year exclusive agreement with Leiner to market additional over-the-counter products in the United States. We have not launched any product under this agreement.

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

United Kingdom. Dr. Reddy s Laboratories (U.K.) Limited, which we acquired in fiscal 2003, is engaged in the marketing of our generic products in the United Kingdom and other European Union countries. We currently market approximately 36 generic products representing over 105 dosage strengths. New product launches in fiscal 2006 included the generic versions of glimepiride, lansoprazole, lisinopril, sertraline and terbinafine. We also seek to expand our presence to the other European countries either directly or through strategic alliances. Consistent with this strategy, during fiscal 2006 we commenced sales of generic terbinafine in certain European markets through an out-licensing arrangement. New product launches in the three months ended June 30, 2006, included sumatriptan.

Germany. In March 2006, we acquired 100% of beta Holding GmbH (betapharm) from 3i Group plc, a European private equity house. This acquisition allowed us to enter the German market. The German market has significant barriers to entry that largely emanate from the fact that generics in Germany are prescribed by brand rather than by active ingredient. The German generics market has certain distinct characteristics, as compared with other major

markets including the United States, Japan and the United Kingdom. These include the method of promoting generics, the reimbursement and insurance system and the structure of the retail channel. As a result, physicians are the primary determinant of which drug and what brand is dispensed. In addition, pharmacists also have an important influence, as they have the ability to substitute brands. More

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recently, the Statutory Health Insurance (or SHI) funds, which in aggregate cover approximately 90% of the population in Germany, have been exerting their influence to contract directly with generics manufacturers, an option made possible under recent legislative reforms. Going forward, we expect that each of these customer groups will play an important role in the ultimate determination of which brand gets dispensed.

Through our national German sales force, we sell a broad and diversified range of generic pharmaceutical products, primarily solid dose, under the beta brand. The sales force targets primary care physicians and pharmacists and key account management targets SHI funds. These efforts are supported by a direct marketing team and an active public relations program. Value-added services provided by the beta Institute for Sociomedical Research, a non-profit organization engaged in research and development in order to seek means of improving the healthcare process in ways which promote the psychological welfare of patients, are fully integrated into the sales and marketing effort and provide a unique differentiation point for the sales calls of both physician and pharmacy representatives.

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

betapharm s key account management function focuses on SHI funds, which are attempting to increase their influence in the generics market. We are one of the few generics companies to have concluded agreements with SHI funds.

Manufacturing and Raw Materials

As with formulations, generics are packaged in individual doses for consumption by the patient. In fiscal 2006 and for the three months ended June 30, 2006, our generics segment procured 72.7% and 56.6%, respectively, of its API requirements from our active pharmaceutical ingredients and intermediates segment.

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

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

Our facilities in the United Kingdom are located at Battersea and Beverley. We are in the process of transferring the manufacturing of products from the Battersea facility to our facilities in India and we intend to close the Battersea facility in fiscal 2007. These facilities currently serve the requirements of the U.K. market. These facilities are designed for the manufacture and packaging of pharmaceutical products in a variety of dosage forms, including tablets, capsules, liquids and creams. All of our U.K. manufacturing operations are subject to stringent regulatory

controls with both facilities subject to regular inspections from the U.K. regulatory bodies. The facilities hold all relevant licenses and authorizations required to conduct all necessary activities, including the supply of materials for use in clinical studies. In addition, the quality systems for ensuring product quality planning and control are ISO 9000 accredited.

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For our manufacturing operations in the United Kingdom, we are dependent on third parties for the supply of all pharmaceutical ingredients and packaging materials used in manufactured products. Supply agreements are in place with all of our suppliers. We are required to identify the suppliers of key raw materials, including all active materials used in our products, within our applications to market products within the United Kingdom and Europe. If we wish to change to an alternative supplier, then we are required to substantiate the suitability of the alternative raw materials and seek prior approval from the health authority in each market where our products using the alternative raw materials are marketed.

We are in the process of expanding our facility at Bachupally, Andhra Pradesh to manufacture tablets and capsules. We are also in the process of establishing a cytotoxic and hormonals facility at a Special Economic Zone located in Visakhapatnam, India to manufacture tablets and capsules. Upon completion of the facility, and commercialization of such products, the facility will cater to the requirements of North American and European customers for those products. We are also evaluating location for setting up a new manufacturing facility at a special economic zone in Andhra Pradesh, India.

In Germany, manufacturing of betapharm s products and the logistics function have been outsourced to third party providers under supply and service agreements. These agreements provide the security of long-term supply on commercially attractive terms while also providing flexibility in the future.

Competition

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

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

exclusivity after the expiration of the patents for either product. Subsequently, the patents for both of these products expired and other companies obtained 180-day exclusivity. Accordingly, we launched sales of these products on June 19, 2006 and June 23, 2006 respectively.

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In Germany, the companies with the largest generics market shares are continuing to increase their generics market shares. The top five generics companies in Germany hold an aggregate market share of approximately 56.3% as per INSIGHT HEALTH NPI-Gx (September 2005). Our key competitors within the German generics market include Sandoz, a division of Novartis Pharma A.G., Ratiopharm Gmbh, Stada Arzneimittel AG and Winthrop Pharmaceuticals.

Government regulations

U.S. Regulatory Environment

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

Our facilities and products are periodically inspected by the U.S. FDA, which has extensive enforcement powers over the activities of pharmaceutical manufacturers. Non-compliance with applicable requirements can result in fines, criminal penalties, civil injunction against shipment of products, recall and seizure of products, total or partial suspension of production, sale or import of products, refusal of the U.S. government to enter into supply contracts or to approve new drug applications and criminal prosecution. The U.S. FDA also has the authority to deny or revoke approvals of drug active ingredients and dosage forms and the power to halt the operations of non-complying manufacturers. Any failure by us to comply with applicable U.S. FDA policies and regulations could have a material adverse effect on the operations in our generics business.

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

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

Before approving a product, the FDA also requires that our procedures and operations conform to Current Good Manufacturing Practice (cGMP) regulations, relating to good manufacturing practices as defined in the U.S. Code of Federal Regulations. We must follow cGMP regulations at all times during the manufacture of our products. We

continue to spend significant time, money and effort in the areas of production and quality testing to help ensure full compliance with cGMP regulations.

The timing of final U.S. FDA approval of an ANDA depends on a variety of factors, including whether the applicant challenges any listed patents for the drug and whether the brand-name manufacturer is entitled to

one or more statutory exclusivity periods, during which the U.S. FDA may be prohibited from accepting applications for, or approving, generic products. In certain circumstances, a regulatory exclusivity period can extend beyond the life of a patent, and thus block ANDAs from being approved on the patent expiration date. For example, in certain circumstances the U.S. FDA may now extend the exclusivity of a product by six months past the date of patent expiration if the manufacturer undertakes studies on the effect of their product in children, a so-called pediatric extension.

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

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

Where the first Paragraph IV certification was submitted on or after December 8, 2003, the new statutory provisions apply. Under these provisions, 180-day exclusivity is awarded to each ANDA applicant submitting a Paragraph IV certification for the same drug with regard to any patent on the first day that any ANDA applicant submits a Paragraph IV certification for the same drug. The 180-day exclusivity period begins on the date of first commercial marketing of the drug by any of the first applicants. However, a first applicant may forfeit its exclusivity in a variety of ways, including, but not limited to (a) failure to obtain tentative approval within 30 months after the application is filed or (b) failure to market its drug by the later of two dates calculated as follows: (x) 75 days after approval or 30 months after submission of the ANDA, whichever comes first, or (y) 75 days after each patent for which the first applicant is qualified for 180-day exclusivity is either (1) the subject of a final court decision holding that the patent is invalid, not infringed, or unenforceable or (2) withdrawn from listing with the U.S. FDA (court decisions qualify if either the first applicant or any applicant with a tentative approval is a party; a final court decision is a decision by a court of appeals or a decision by a district court that is not appealed). The foregoing is an abbreviated summary of certain provisions of the Medicare Act, and accordingly it should be consulted for a complete understanding of both the provisions described above and other important provisions related to 180-day exclusivity and forfeiture thereof.

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

European Union Regulatory Environment

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

Our U.K. facilities are licensed and periodically inspected by the U.K. MHRA Inspectorate, which has extensive enforcement powers over the activities of pharmaceutical manufacturers. Non-compliance can result in product recall

and closure. In addition, the U.K. MHRA Inspectorate has approved and periodically

inspected our manufacturing facility based in Andhra Pradesh, India for the manufacture of generic tablets and capsules for supply to Europe.

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

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

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

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

In Germany, the government has introduced several healthcare reforms in order to control healthcare spending and promote the prescribing of generic drugs. In late 2003, the German government passed the healthcare reform act (GKV-Modernisierungs-Gesetz) which became effective January 1, 2004. As the reform aimed to reduce overall healthcare costs, the majority of changes were related to reimbursement. Subsequently, the German government passed the Economic Optimization of the Pharmaceutical Care Act (Arzneimittelversorgungs-Wirtschaftlichkeisgestz or AVWG) which became effective May 1, 2006 which also is designed to contain increased pharmaceutical costs. The AVWG s provisions include, among other things: prohibitions on the provision of free goods to pharmacists; limitations on the payment of rebates to wholesalers and pharmacists; prohibitions on price increases for generics prior to March 31, 2008; implementation of additional mandatory rebates of 10% if pharmaceutical prices are not 30% below the reference prices as published by the German government; reduction of fixed prices as of July 1, 2006; and empowering the SHI organizations to waive copayments by patients.

Canada and South Africa Regulatory Environment

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

Critical Care and Biotechnology Segment

The critical care and biotechnology businesses were started in 1998 to focus on and create a strong technology base in these areas. While this area of our business generates low sales volume, the products are generally high value. Our critical care products are formulations used in hospitals to treat cancer and for supportive care. Our biotechnology products cover recombinant protein therapeutics development. The trading operations of our diagnostics division were discontinued in fiscal 2004.

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The following table provides revenues for this segment for fiscal 2004, 2005, 2006 and the three months ended June 30, 2006, respectively:

	Fiscal Year Ended March 31,								Three Months Ended June			
	2004		2005		2006				2006			
on	Revenues (In millions)	% Total	Revenues (In millions)	Revenues (In millions)	Revenues (In millions)			% Total	Revenues (In millions)			To
al Care	Rs.325.2	79.1	Rs.407.9	Rs.77.4	Rs.517.5	U.S.$	11.6	74.9	Rs.145.2	U.S.$	3.2	
ostics	9.1	2.2										
chnology	76.7	18.7	119.2	22.6	173.6		3.9	25.1	52.8		1.1	
	Rs.411.0	100.0	Rs.527.1	100.0	Rs.691.1	U.S.$	15.5	100.00	Rs.198.0	U.S.$	4.3	1

The following table sets forth revenues of our critical care and biotechnology segment by geographic area for fiscal 2004, 2005, 2006 and the three months ended June 30, 2006, respectively:

	Fiscal Year Ended March 31,								Three Months Ended June 30,			
	2004		2005		2006				2006			
ivision	Revenues (In millions)	% Total[(1)]	Revenues (In millions)	% Total[(1)] (In millions)	Revenues (In millions)			% Total[(1)]	Revenues (In millions)			% Total[(1)]
ndia	Rs.259.5	63.1	Rs.360.7	68.4	Rs.450.4	U.S.$	10.1	65.2	Rs.127.1	U.S.$	2.8	64.2
ussia	39.5	9.6	62.3	11.8	93.0		2.1	13.4	22.9		0.5	11.6
ther countries f the ormer oviet nion	12.2	3.0	19.4	3.7	56.5		1.3	8.2	18.7		0.4	9.4
ther	99.8	24.3	84.7	16.1	91.2		2.0	13.2	29.3		0.6	14.8
otal	Rs.411.0	100.0	Rs.527.1	100.0	Rs.691.1	U.S.$	15.5	100.0	Rs.198.0	U.S.$	4.3	100.0

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

Critical care. This business accounted for 74.9% of the segment s revenues in fiscal 2006, contributing Rs.517.5 million. For the three months ended June 30, 2006, this business accounted for 73.3% of the segment s

revenues, contributing Rs.145.2 million. We focus on high margin, low volume products for niche markets in India in the area of critical care. Our main products are Mitotax (paclitaxel), Cytogem (gemcitabine), Docetere (docetaxel) and Irinocam (irinotecan). We also market Dacotin (oxaliplatin), which is licensed and imported from Debiopharm S.A. of Switzerland. As of September 30, 2006, we had about 10 oncology generics products in development.

Biotechnology. This business accounted for 25.1% of the segment s revenues in fiscal 2006, contributing Rs.173.6 million. For the three months ended June 30, 2006, this business accounted for 26.7% of the segment s revenues, contributing Rs.52.8 million. Grafeel is the only biotechnology product we sold in fiscal 2006 and sell currently.

The following table sets forth the sales of our key products in fiscal 2004, 2005, 2006 and the three months ended June 30, 2006, respectively: