Gafisa S.A.
Form 6-K
January 09, 2017

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF THE
SECURITIES EXCHANGE ACT OF 1934

For the month of January, 2017

(Commission File No. 001-33356),

Gafisa S.A.

(Translation of Registrant's name into English)

Av. Nações Unidas No. 8501, 19th floor
São Paulo, SP, 05425-070
Federative Republic of Brazil
(Address of principal executive office)

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

Form 20-F ___X___ Form 40-F _____

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

Yes _____ No ___X___

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

Yes _____ No ___X___

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

Yes _____ No ___X___

If “Yes” is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

GAFISA S.A.

Corporate Taxpayer's ID ("CNPJ/MF") No. 01.545.826/0001-07

Corporate Registry ID ("NIRE") 35.300.147.952

MANAGEMENT PROPOSAL

EXTRAORDINARY SHAREHOLDERS' MEETING

FEBRUARY 9, 2017

at 11 a.m.

INDEX

GAFISA S.A.
CNPJ/MF No. 01.545.826/0001-07

NIRE 35.300.147.952

Publicly-held Company

MANAGEMENT PROPOSAL FOR THE EXTRAORDINARY SHAREHOLDERS' MEETING TO BE HELD ON FEBRUARY 9, 2017

Dear Shareholders,

The management of Gafisa S.A. ("Company" or "Gafisa"), pursuant to CVM Instruction No. 481 of December 17, 2009 ("CVM Instruction No. 481/09"), hereby submits to the Company's shareholders a proposal on the matters to be resolved at the Company's extraordinary shareholders' meeting to be held on February 9, 2017, at 11 a.m. ("Management Proposal" and "Extraordinary Shareholders' Meeting", respectively), namely the:

(i) offer to the Company's shareholders the preemptive right, at the proportion of their respective equity interest in the Company's capital stock, to acquire common shares representing up to 50% of the capital stock of its wholly-owned subsidiary Construtora Tenda S.A., a publicly-held company enrolled with CNPJ/MF No. 71.476.527/0001-35, NIRE 35.300.348.206 ("Tenda"), under the terms and for the purposes of Article 253, I of Law No. 6,404/76 ("Preemptive Right"), in view of the Company's decision to sell part of the shares issued by Tenda to Jaguar Real Estate Partners, LP or one of its affiliates ("Jaguar"), as disclosed in the Material Fact dated as of December 14, 2016;

(ii) reduction of the Company's capital stock in the total amount of R$219,510,000.00, resulting in a reduction from R$2,740,661,187.74 to R$2,521,151,187.74, without cancellation of shares, pursuant to Article 173 of Law No. 6,404/76, for being deemed as excessive, with the delivery to the Company's shareholders of 1 common share issued by Tenda for each 1 common share issued by Gafisa, owned by the shareholder, after the reverse split, excluding the treasury shares, totalizing 27,000,000 common shares issued by Tenda, representing the other 50% of its total capital stock ("Gafisa's Capital Stock Reduction"); and

(iii) restatement of the Company's Bylaws in order to reflect the amendments resulting from the Gafisa's Capital Stock Reduction.

I. Preemptive Right for the Admission of Shareholders in Wholly-Owned Subsidiary

As disclosed in the material facts of February 7, 2014, April 29, 2015, August 16, 2016 and December 14, 2016, the Company's management has been conducting studies and analyzing opportunities to separate the business units of the Company and Tenda, its wholly-owned subsidiary, so that these entities become two publicly-held and independent companies ("Separation").

After analyzing the available options during such period, the Company's management decided to sell 50% of the shares representing Tenda's total capital stock and deliver the remaining 50% of shares of Tenda's total capital stock to Gafisa's shareholders by means of the Gafisa's Capital Stock Reduction.

Within the sale, and as released in the material fact of December 14, 2016, the Company entered into an agreement with Jaguar for the acquisition of, subject to compliance of certain conditions, shares representing, at least 20% and up to 30% of Tenda's total capital stock, for the price of R$8.13 per share ("Price per Share") ("Jaguar Purchase and Sale"). If, after the exercise of the Preemptive Right, less than 20% of Tenda's shares remain available to be purchased, Jaguar may, at its sole discretion, acquire or not such remaining available shares.

Therefore, in compliance with provisions of Article 253, I, of Law No. 6,404/76, the Company will offer to its shareholders the Preemptive Right for the acquisition of shares representing up to 50% of Tenda's capital stock, at the proportion of their respective equity interest in the Company's capital, at the Price per Share, to be paid on spot, in cash, upon the exercise of the Preemptive Right.

The date for purposes of identifying the Company's shareholders who will be entitled to acquire Tenda's shares will be the business day immediately preceding the initial term for the exercise of the Preemptive Right (after market closes). This date will be informed in a notice to shareholders to be released upon the occurrence of the general shareholders' meeting ("Notice to Shareholders"). Therefore, the Company's shares will be traded ex-Preemptive Right starting on the first day of the term for the exercise of the Preemptive Right.

Once the term for the exercise of the Preemptive Right expires, the unsold shares (*sobras*) will be prorated between shareholders who expressed an interest in acquiring such unsold shares upon the exercise of their Preemptive Right, in the proportion of shares that such shareholders have acquired prior to prorating, being admissible the option for the acquisition of an additional amount, up to the limit of the unsold shares, and executing, additionally, as applicable, the other terms and conditions of Article 171 of Law No. 6,404/76.

The Jaguar Purchase and Sale and the sale of Tenda's shares to Gafisa's shareholders who exercise the Preemptive Right ("Preemptive Right Purchase and Sale") are subject to the conclusion of: (***i***) Gafisa's Capital Stock Reduction; and (***ii***) Tenda's capital stock reduction, approved at the extraordinary shareholders' meeting of Tenda held on December 14, 2016 ("Tenda's Capital Stock Reduction"). In other words, the non-conclusion of Gafisa's Capital Stock Reduction **AND/OR** Tenda's Capital Stock Reduction for any reason, shall be deemed as a dissolving condition of the transaction that are subject-matter to Jaguar Purchase and Sale and to the Preemptive Right Purchase and Sale, and accordingly, these transactions (Jaguar Purchase and Sale and the Preemptive Right Purchase and Sale) will no longer produce any effects if Gafisa's Capital Stock Reduction and/or Tenda's Capital Stock Reduction do not consummate.

Yet, the non-conclusion of the Jaguar Purchase and Sale does not, by itself, affect the consummation of the Preemptive Right Purchase and Sale, which will be implemented, by the delivery to Gafisa's shareholders who exercise the Preemptive Right, on the date to be specified in the Notice to Shareholders, of Tenda's shares they are entitled to receive.

The Company's shareholders who intend to negotiate their Preemptive Rights may do so once the term for the exercise of the Preemptive Right has begun, by acting sufficiently in advance to allow the exercise of the assigned subscription rights assigned within such term.

Since the Preemptive Right may not be exercised by holders of the American Depositary Shares ("ADSs") program, Citibank N.A., as the depositary institution for the Company's ADSs program, was advised and agreed to endeavor commercially reasonable efforts to sell the Preemptive Rights attributable to, and on behalf of, the holders of ADSs.

The Company will initiate the process to list Tenda's shares on the traditional segment of BM&FBOVESPA – Bolsa de Valores, Mercadorias e Futuros S.A., so that such shares are accepted for trading by the date of their delivery to shareholders of Gafisa and/or to Jaguar, as applicable.

Additional information on Tenda is available at its Investor Relations website (www.tenda.com/investidores/) and at the website of the Brazilian Securities and Exchange Commission (www.cvm.gov.br).

II. Gafisa's capital stock reduction

Also with the purpose of implementing the Separation, and for being deemed as excessive, we propose that the reduction of the Company's capital stock, in the amount of R$219,510,000.00 be approved, pursuant to Article 173 of Law No. 6,404/76, without cancellation of shares, resulting in a reduction from R$2,740,661,187.74 to R$2,521,151,187.74, with the delivery to the Company's shareholders, of 1 common share issued by Tenda for each 1 common share issued by Gafisa, owned by the shareholder, after reverse split, excluding the treasury shares, totalizing 27,000,000 common shares, issued by Tenda, representing 50% of its total capital stock, with the related amendment to the *caput* of Article 5 of the Company's Bylaws.

We propose that the effectiveness of Gafisa's Capital Stock Reduction be subject to the completion of Tenda's Capital Stock Reduction, in addition to the compliance with provisions of Article 174 of Law No. 6,404/76.

Gafisa's shares will be traded ex-capital stock reduction on the business day following the last day of the 60-day term provided for in Article 174 of Law No. 6,404/76.

In compliance with provisions of CVM Instruction No. 481/09, we attach the following documents to this Management Proposal:

- **Exhibit A** – Information indicated in Article 11 of CVM Instruction No. 481/09 related to the amendment to the Company's Bylaws; e

- **Exhibit B** – Information indicated in Exhibit 16 of CVM Instruction No. 481/09 related to the Company's Capital Stock Reduction.

São Paulo, January 9, 2016.

The Management

Gafisa S.A.

Exhibit A – Information related to amendment to the Company's bylaws

Copy of the Company's Bylaws with Amendments Proposed (Article 11, I of CVM Instruction No. 481/09)	Report including the Origin, Justification and Effects of Amendments Proposed (Article 11, II of CVM Instruction No. 481/09)
CHAPTER I	Unaltered.
NAME, HEADQUARTERS, PURPOSE AND DURATION	
Article 1. Gafisa S.A. (the "Company") is a publicly held corporation, governed by these Bylaws, its Code of Ethics and Conduct and applicable law and regulations.	
Sole Paragraph. With the Company admission to the special securities trading segment of the São Paulo Stock Exchange Commission (*BM&FBOVESPA S.A. – Bolsa de Valores, Mercadorias e Futuros*) (hereinafter respectively referred to as "Novo Mercado" and "BM&FBovespa"), the Company, its shareholders, Managers, and members of the fiscal council, when installed, shall be subject to the provisions of the BM&FBovespa New Market Listing Regulation (hereinafter referred to as "Novo Mercado Rules").	
Article 2. The Company's headquarters and forum are located in the City of São Paulo, State of São Paulo. The Company may, by resolution adopted either by the board of directors or the executive board, change the address of its headquarters, and open, transfer and extinguish branches, agencies, offices, warehouses, representation offices and any other establishments anywhere within Brazilian territory or abroad.	Unaltered.
Article 3. The Company's purposes are: (i) to promote and develop real estate projects of any kind, whether its own or those of third parties, in the latter case as contractor and agent; (ii) to purchase and sell real estate of any kind; (iii) to perform civil construction and provide civil engineering services; and (iv) to develop and implement marketing strategies for its own or third parties' real estate projects.	Unaltered.
Sole Paragraph. The Company may hold interests in any other companies, in Brazil or abroad, upon approval granted by means of a resolution adopted by the board of directors, except in the situation provided in Art. 32, §1, in which case prior approval of the board of directors will not be required.	

Article 4. The Company has an indefinite term of duration.	Unaltered.
CHAPTER II CAPITAL AND SHARES	
Article 5. The capital of the Company is R$2,521,151,187.74 ~~2,740,661,187.74~~, which is fully subscribed and paid-in, divided into 28,040,162 common shares, all registered, book-entry and without par value.	Amendment to the capital stock in order to reflect the Capital Stock Reduction There are no other legal or economic effects expected.
§1. The cost of share transfer services charged by the account agent shall be borne by the shareholders, subject to such limits as may be imposed by applicable legislation.	
§2. Each common share carries the right to one vote on resolutions at general meetings of shareholders.	
§3. The Company shall not issue preferred shares or participation certificates (*partes beneficiárias*).	
§4. For purposes of reimbursement, the value of the Company's shares shall be based on the Company's economic value, as determined by an appraisal carried out by a specialized firm appointed in the manner provided for in Article 45 of Corporation Law.	
Article 6. The capital of the Company may be increased by resolution adopted by the board of directors, without need for an amendment to these Bylaws. The resolution approving the increase shall fix the terms and conditions for the issuance of shares, subject to a limit of 44,500,405 common shares.	Unaltered.
Sole Paragraph. The Company may, within the limit of its authorized capital and by resolution of the shareholders in a general meeting, grant share purchase options to (i) its officers, directors and employees, or (ii) individuals who provide services to it or to any company under its control.	
Article 7. The Company may reduce or exclude the time period for the exercise of preemptive rights on the issuance of shares, debentures convertible into shares or subscription bonuses which are placed by means of sale on a stock exchange, public subscription or share swap in a public tender offer pursuant to articles 257 to 263 of Corporation Law. Pursuant to article 171, §3 of Corporation Law, there shall be no preemptive rights on the grant and exercise of the share purchase options.	Unaltered.
CHAPTER III	Unaltered.
GENERAL MEETING OF SHAREHOLDERS	
Article 8. A general meeting of shareholders shall be held, on an ordinary basis, in the first four (4) months following the end of the fiscal year and on an extraordinary basis whenever required by law or the Company's interests.	
§1. General meetings of shareholders shall be called in the manner provided for by law. Regardless of the formalities for calling general shareholders' meetings, any general meeting attended by all shareholders	

shall be considered to have been regularly called.	
§2. General meetings of shareholders shall be called to order and chaired by the chairman of the board of directors or, in his absence, by a shareholder appointed by the shareholders at the general meeting. The chairman of the general meeting shall choose one of those present at the meeting to act as secretary.	
§3. Prior to the call to order, the shareholders shall sign the "Book of Attendance" (*Livro de Presença de Acionistas*), giving their name and residence and the number of shares they hold.	
§4. The list of shareholders present at the meeting shall be closed by the chairman immediately after the general meeting is called to order.	
§5. Shareholders which appear at a general meeting after the list of shareholders present at the meeting has been closed may participate in the meeting but shall not have the right to vote on any resolution.	
§6. The resolutions of the general meeting shall be taken by the majority of affirmative votes of those present, provided that the blank votes shall not be counted, and with the exception of the cases set forth by law and subject to the provisions set forth in the main clause of Article 10.	
Article 9. In addition to the matters provided for by the law, the shareholders in general meeting shall:	Unaltered.
(a) decide on the Company's exit from the Novo Mercado of BM&FBovespa, which shall be communicated to BM&FBovespa in writing, 30 (thirty) days in advance;	
(b) always subject to the provisions of Article 11, choose, from among the three qualified institutions indicated on a list prepared by the board of directors, the institution which shall be responsible for the preparation of an appraisal report for shares issued by the Company, for the purposes of exiting the Novo Mercado, cancellation of the Company's registration as a publicly-held company or mandatory public tender offer; and	
(c) resolve cases on which these Bylaws are silent, subject to the provisions of Corporation Law.	
Article 10. The choice of the specialized institution or firm responsible for the determination of the Company's Economic Value (as defined hereafter), referred to in Article 9 (b) of these Bylaws, shall be solely made by the shareholders' general meeting, from the submission, by the board of directors, of triple list, and the respective resolution shall be made by the majority of votes cast by holders of Outstanding Shares present at the general meeting in question, blank votes not being computed. The quorum for the general meeting shall be shareholders representing at least 20% of the total number of Outstanding Shares, at first call, and on second call, shareholders representing any number of Outstanding Shares.	Unaltered.

§1. The appraisal reports mentioned in this Article 10 shall be elaborated by a specialized firm or institution, with proven experience and independent as to the power of decision of the Company, its Managers and/or Controlling Shareholder, in addition to fulfilling the requirements set forth in §1 of Article 8 of Corporation Law, and shall bear the responsibility set forth in §6 of the same article.

§2. For purposes of these Bylaws:

"Controlling Shareholder" means the shareholder(s) or Shareholder Group that exercises Control of the Company;

"Disposing Controlling Shareholder" means the Controlling Shareholder, when it causes a Disposal of Control of the Company;

"Control Shares" means the block of shares that gives, either directly or indirectly, the holder(s) sole or shared Control of the Company;

"Outstanding Shares" means all the shares issued by the Company, with the exception of shares held by the Controlling Shareholder, by persons related to the Controlling Shareholder or by the Company's Managers and treasury shares;

"Managers", when appearing in the singular form, the Company's officers and members of the board of directors individually referred, or, when in the plural form, the Company's officers and members of the board of directors collectively referred;

"Purchaser" means the person to whom the Disposing Controlling Shareholder transfers Control in a Disposal of Company Control;

"Disposal of Control" means the transfer to a third party, for value, of Control Shares;

"Shareholder Group" means a group that (a) are bound by contracts or vote agreements of any nature, whether directly or through controlled companies, controlling companies or companies under common control; or (b) among whom there is a direct or indirect control relationship; or (c) under common control;

"Corporation Law" the Law no. 6.404, of December 15, 1976, and all of the subsequent amendments thereto;

"Control" means the power effectively used to direct corporate activities and orient the functioning of the Company's corporate bodies, whether directly or indirectly and whether de facto or de jure, regardless of the equity interest held. There is a relative presumption that the person or Shareholder Group holding shares that gave it an absolute majority of votes of the shareholders present at the last 3 (three) general shareholders' meetings holds Control, even if such person or Shareholder Group does not hold an absolute majority of the Company's voting capital;

"Statement of Consent from Managers" means the document by which the Company Managers personally undertake to be subject to and act in accordance with the Novo Mercado Agreement (*Contrato de Participação no Novo Mercado*), the Novo Mercado Listing Rules, the Regulation of Sanctions and the Arbitration Clause and the Arbitration Rules, which document shall also be valid as Arbitration Clause, in the form set out in Exhibit A to the Novo Mercado Rules;	
"Statement of Consent from Controlling Shareholders" means the instrument by which the new Controlling Shareholders, or shareholders which join the control group of the Company, assume personal liability for complying with the Novo Mercado Agreement (*Contrato de Participação no Novo Mercado*), the Novo Mercado Rules, the Regulation of Sanctions, the Arbitration Clause and the Arbitration Rules, in the form set out in Exhibit B to the Novo Mercado Rules;	
"Economic Value" the value of the Company and its shares to be determined by specialized firm, availing of acknowledged methodology, or based on another criterion to be established by the Brazilian Securities and Exchange Commission (hereinafter referred to as "CVM").	
Article 11. In the event the Company exits the Novo Mercado or its registration as a publicly-held company is cancelled, the costs incurred for the preparation of the appraisal report referred to in Article 9 (b) shall be borne entirely by the Controlling Shareholder or by the Company, if the Company is offeror, as applicable.	Unaltered.
Article 12. The general meeting may suspend the exercise of rights, including the voting right, of the shareholder or Shareholder Group that fails to comply with legal or regulatory obligations, as well as those provided under these Bylaws.	Unaltered.
§1. The shareholders representing a minimum of 5% of the Company's capital may call the general meeting referred to in the main clause of this Article 12, when the board of directors does not respond, within 8 days, to a request for calling it, indicating the violated obligation and the identification of the shareholder or Shareholder Group in default.	
§2. The general meeting which approves the suspension of the shareholder's rights shall be incumbent of establishing, among other aspects, the scope and the term of the suspension, provided that the suspension of the right of supervision and the right to demand information, as provided in law, may not be suspended.	
§3. The suspension of rights shall cease when the violated obligation is performed.	
CHAPTER IV	Unaltered.
MANAGEMENT	
SECTION IV.I. - GENERAL RULES	

Article 13. The Company is managed by the board of directors (*Conselho de Administração*) and the executive board (*Diretoria*).	
Article 14. The members of the board of directors and the executive board shall be invested in their respective offices within thirty days from the date they were appointed, unless a justification is accepted by the corporate body for which they have been appointed, by signing an instrument of investiture in the appropriate book, and shall remain in office until the investiture of the newly-elected members of the Company's management. **Sole Paragraph.** The investiture of the members of the board of directors and the board of executive officers in their respective offices is conditional upon, without prejudice to the compliance of legal requirements applicable, (i) the prior execution of the Statement of Consent from Managers (*Termo de Anuência dos Administradores*) provided for under the Novo Mercado Rules; and (ii) adherence to the Manual for Disclosure and Use of Information and Policy for Trading in Securities Issued by the Company (*Manual de Divulgação e Uso de Informações e Política de Negociação de Valores Mobiliários de Emissão da Companhia*), by executing an instrument to that effect.	Unaltered.
Article 15. The shareholders in general meeting shall determine, on an individual or global basis, the remuneration of the Company's Managers and members of its advisory committees. Where the remuneration is fixed on a global basis, the board of directors shall determine the amounts to be paid to each individual. Where applicable, the board of directors shall also distribute the share in profits fixed by the shareholders in general meeting.	Unaltered.
Art. 16. In performing its attributions and as a parameter of the performance of their duties and legal responsibilities, the Company's management bodies must rest, strictly on the observation of the following principles and guidelines, without prejudice of others that may be suggested by the Corporate Governance and Compensation Committee and approved by the board of directors: (a) the Company's management shall be performed in a professional way, aligned with the shareholder's interests, but without association to any particular interests of any shareholder or Shareholder Group individually considered; (b) the powers conferred, through these Bylaws, to the management bodies, especially those related to the rules for appointing the candidates for the board of directors and to the appraisal of the terms of a public tender offer, will be exercised strictly according with the Company's and its shareholders' best interests, and with the principles set forth herein; (c) the existence of the powers mentioned in the item (b) above is based on the shareholders' interests as a whole, and its only function is to attend and maximize such interests, in case such becomes necessary in view of the Company's continuity and generation of long-term value; (d) the powers set forth in item (b) above cannot be used, under any circumstances, for the private benefit of any shareholder, Shareholder Group, director, officer or group of directors and/or officers;	Unaltered.

(e) the powers mentioned above, as well as its objectives, cannot be understood and have no function whatsoever of serving as an obstacle to the development of Control by any shareholder or Shareholder Group, and as such, the board of directors shall exercise its competence set forth in Article 58 in such a way as to allow that the eventual development of Control enables the creation of higher value to the Company's shareholders, within the time horizon it believes to better serve the shareholders' interests considered as a whole;

(f) the Company's management shall be performed transparently, with extensive internal and external provision of the information required by law, regulations or by these Bylaws;

(g) the strict enforcement of the law and the accounting standards, and the most rigid ethics standards shall be observed by all members of the Company's management in performing their functions, and they shall responsible for ensuring that the other employees and collaborators of the Company and its controlled companies also observe the same standards;

(h) the compensation of the members of the Company's management and its senior employees must support, above all, delivery of results and long-term value creation, as well as the retention of talents, and it must be structured in a way as to prevent any kind of privilege, distortion with respect to market standards or mechanism that may hamper or impair the achievement of the corporate interest;

(i) the management shall be responsible for the development of internal politics and practices to attract and retain the best talents and to cause the Company to count with highly qualified human resources, also encouraging the achievements of goals and promoting meritocracy; and

(j) no member of the management may have access to information, participate in meetings of any other management body, exercise voting rights or in any way intervene in matters that are, directly or indirectly, in situations of conflicting interests with the interests of the Company or when it may be particularly benefited in any way.

SECTION IV.II. - BOARD OF DIRECTORS (CONSELHO DE ADMINISTRAÇÃO)	Unaltered.
Composition	
Article 17. The board of directors is composed of at least five (5) and no more than nine (9) effective members (being permitted the election of alternates), all of whom shall be elected and removable by the shareholders in general meeting, with a unified term of office of two (2) years, re-election being permitted.	
Article 18. From the members of the board of directors, no less than twenty percent (20%) shall be Independent Members, expressly declared as such in the minutes of the shareholders' general meeting electing them, and the director(s) elected according to the faculty provided for by Article 141, §§ 4 and 5, and Article 239, of the Corporation Law, shall be likewise deemed	Unaltered.

independent director(s).

§1. When, due to the observance of the percentage referred to in the main clause of this Article 18, the election results in fractional number of directors, the shareholders in general meeting shall round it to whole number: (i) immediately above, when the fraction is equal to or greater than 0.5 (five decimals), or (ii) immediately below when the fraction is less than 0.5 (five decimals).

§2. For purposes of these Bylaws, "Independent Member" is one who: (i) has no relationship with the Company except for an interest in its capital; (ii) is not a Controlling Shareholder, nor a spouse or relative up to the second degree of the Controlling Shareholder, and is not now and has not been, in the past three years, related to the company or entity related to the Controlling Shareholder (persons related to public institutions of education and/or research are excluded from this restriction); (iii) has not been, in the past three years, an employee or officer of the Company, the Controlling Shareholder or a company controlled by the Company; (iv) is not a direct or indirect supplier or purchaser of the Company's services and/or products of the Company, in a degree that implies loss of independence; (v) is not an employee or member of the management of the Company or entity offering services and/products to, or requesting services and/or products from, the Company, as material that will implicate in loss of independence; (vi) is not a spouse, or relative up to the second degree of any of the Company's officers or directors; and (vii) does not receive any other kind of remuneration from the Company other than that arising from its term of office as board member (cash earnings generated by holdings in the Company's capital are excluded from this restriction).

§3. The position of chairman of the board of directors and chief executive officer or main officer of the Company may not be accumulated by the same person.

Functioning	Unaltered.

Article 19. The board of directors shall have a chairman, who shall be elected by the favorable vote of a majority of the effective members. In the event of incapacity or temporary absence of the chairman, the chairmanship shall be assumed by the member previously designated by the chairman, or, in the absence of a previous designation, by such member as the remaining members shall appoint.

§1. As set forth in Article 150 of Corporation Law, in case of vacancy of a sitting member of the board of directors, not resulting in composition lower than the majority of the offices of the body, in accordance with the number of incumbent directors resolved by shareholders' general meeting, the remaining members of the board of directors, assisted by the Corporate Governance and Compensation Committee shall (i) indicate one substitute, who shall remain in the office until the next general meeting to be held after that date, when a new board member shall be elected to finish the mandate; (ii) opt for leaving vacant the office of the vacating member, provided that the number of members set forth in the *caput* of this Article is

complied with. An Independent Member, shall only be substituted by another Independent Member.

§2. In case of vacancy in the majority of positions of the board of directors, a general meeting to elect the replacements, which will complete the term of the replaced members, shall be called within 15 days of the event.

§3. For the purposes of these Bylaws, vacancy will occur in case of death, permanent incapacity, resignation, removal or unjustified absence of the board member for more than three consecutive meetings.

§4. Respecting the provision of the *caput* of this Article in relation to the chairman, in case of the temporary absence of any member of the board of directors, such member shall be replaced by another board member appointed by the absent member, holding a power-of-attorney with specific powers. In this case, the substitute of the absent board member, besides his own vote, shall state the vote of the absent board member. An Independent Member shall only be substituted by another Independent Member.

Article 20. The board of directors shall meet at least bimonthly. Meetings of the board of directors shall be called by the chairman, or by at least two effective members, by written notice containing the agenda for the meeting, in addition to the place, date and time of the meeting. Board of directors' meetings shall be called at least five days in advance. Regardless of the formalities for calling meetings, any meeting attended by all members of the board of directors shall be considered to have been regularly called.	Unaltered.
Article 21. The quorum for board of directors' meetings shall be four members. Resolutions shall be adopted by the favorable vote of a majority of members present at the meeting, and the chairman shall have, in addition to his own vote, a casting vote in the event of a tie.	Unaltered.

§1. The decisions of the board of directors shall be recorded in minutes, which shall be signed by the members present at the meeting.

§2. Directors may take part at meetings of the board of directors by telephone or videoconference, and, in that event, shall be considered to be present at the meeting and shall confirm their vote by written statement sent to the chairman by letter, facsimile transmission or e-mail immediately after the end of the meeting. Upon receipt of statement of confirmation, the chairman shall have full powers to sign the minutes of the meeting on behalf of the member in question.

§3. The chief executive officer shall attend all meetings of the board of directors, providing clarification as needed.

<u>Powers</u>	Unaltered.

Article 22. In addition to such other powers and duties conferred on it by law and these Bylaws, the board of directors shall have powers to:

(a) fix the general direction of the Company's business;

(b) define the strategic directions that should guide the preparation of the annual budget and business plan of the Company, to be prepared by the executive board;

(c) approve the Company's annual operating budget and business plan, and any changes thereto (provided, however, that until such new budget or plan has been approved, the most recently approved budget or plan shall prevail);

(d) attribute, from the global amount of remuneration fixed by the shareholders in general meeting, the monthly remuneration of each of the members of the Company's management and advisory committees, in the manner provided for in Article 15 of these Bylaws;

(e) nominate a slate for the election of the board of directors;

(f) elect and remove the Company's officers and determine their powers and duties, in accordance with the provisions of these Bylaws and ensuring that such positions are always occupied by trained people, familiar with the activities of the Company and its controlled companies, and also able to implement its business plans, long-term goals, and ensure the continuity of the Company;

(g) supervise the officers' management of the Company, examine at any time the Company's books and documents, and request information on contracts entered into or about to be entered into by the Company and any other acts;

(h) determine the general remuneration criteria and the benefit policies (indirect benefits, shares in profits and/or sales) for the senior management and those holding management positions in the Company;

(i) instruct the votes related to the global remuneration of management to be cast by Company's representative at the general meeting of shareholders of the companies where the Company holds an equity interest, except for the wholly-owned subsidiaries or special purpose companies;

(j) in accordance with a plan approved by the shareholders in general meeting, grant share purchase options to the Company's officers, directors or employees, or to individuals who rendered services to the Company or to any company under its control, with the exclusion of shareholders' pre-emptive rights over the grant of such share purchase options or the subscription of the corresponding shares;

(k) call general shareholders' meetings;

(l) submit to the shareholders in general meeting any proposed amendment to these Bylaws;

(m) issue its opinion on the executive board's management report and accounts, and authorize the distribution of interim dividends;

(n) attribute to the Company's directors and officers their share in the profits shown on the Company's balance sheets, including interim balance sheets, subject always to the limits and other provisions under the law and these Bylaws;

(o) authorize any change in the Company's accounting or report presentation policies, unless such change is required by the generally accepted accounting principles in the jurisdictions in which the Company operates;

(p) appoint and dismiss the Company's independent auditors;

(q) approve the issue of shares or subscription bonuses up to the limit of the Company's authorized capital, determining the issue price, the manner of subscription and payment and other terms and conditions for the issuance, and determining also if preemptive rights over the shares to be issued shall be granted to shareholders in the case provided for in the Article 7 of these Bylaws;

(r) approve the issuance of debentures of any species and characteristics and with any guarantees, provided that, in the case of debentures convertible into shares, the limit authorized for the issuance of common shares, provided for in Article 6 hereof, is complied with;

(s) approve the Company's acquisition of its own shares, to be held in treasury or for cancellation;

(t) approve business transactions and contracts of any kind between the Company and its shareholders, directors and/or officers, or between the Company and the direct or indirect controlling shareholders of the Company's shareholders, except if provided in the annual budget or business plan then in effect;

(u) authorize, in advance: (i) the execution by the Company of any contract, including, for the purposes of illustration, contracts for the acquisition of assets or interests in other companies; or (ii) the grant, by the Company, of loans, financing or real or personal security in favor of its controlled companies (with the exception of special purpose companies in which the Company holds 90% or more of the total and voting capital) or third parties, provided always, in the cases contemplated in items (i) and (ii) above, that the contracts involve transactions with a term greater than 48 (forty-eight) months (with the exception of contracts with public utilities providers and other contracts which have uniform terms and conditions, which shall not be subject to prior approval by the board of directors) or an amount greater than R$15,000,000.00 or 1.5% of the Company's total consolidated assets (the "Reference Value");

(v) authorize the acquisition, alienation, transfer, assignment, encumbrance or other form of disposal, including contribution to the capital of another company, for any reason, of a substantial part of the Company's non-current assets, non-current assets being understood to be the set of

assets on which the Company's business is based, in amounts greater than the Reference Value (as defined in item (u) above), when such transactions are not provided for in the annual budget;

(w) approve, in advance, any application by the Company for a decree of bankruptcy or judicial or extrajudicial recovery;

(x) determine the list of three companies specialized in economical valuation, to be submitted to the general shareholders meeting for the purposes of Article 9, (b) of these Bylaws, for the preparation of the appraisal report of the Company's shares for purposes of public offer of shares, cancellation of registration as a publicly-held company registration, exiting the Novo Mercado or mandatory public tender offer, in the cases provided under these Bylaws; and

(y) issue its opinion in advance, making it public and observing the rules laid out in Article 58 hereof, on the terms of any public tender offer that having as purpose the acquisition of shares of the Company, whether such an offer is made pursuant to law or regulation in force, or in accordance with Article 53 hereof.

SECTION IV.III. - EXECUTIVE BOARD (*DIRETORIA*)	Unaltered.
Article 23. The executive board is the corporate body that represents the Company, and is responsible for performing all acts of management related to the Company's business.	
Article 24. The executive board is not a collegiate body, but it may meet whenever necessary to deal with operational and strategic matters, at the discretion of the chief executive officer, who shall also chair the meeting.	Unaltered.

Sole Paragraph. The quorum for meetings of the executive board is a majority of the Company's officers.

Article 25. In the event of a vacancy on the executive board, or incapacity of an officer, the board of directors shall elect a new officer or appoint a substitute from among the remaining officers, and in both cases shall fix the term of office and remuneration of the new officer or substitute.	Unaltered.
Article 26. The executive board is composed of at least two (2) and no more than eight (8) officers, all resident in Brazil, who may but need not be shareholders. The officers shall be elected by the board of directors for a term of three (3) years, re-electing being permitted, and may be removed by it at any time.	Unaltered.
Article 27. The officers of the Company shall be appointed as chief executive officer (*diretor presidente*), investor relations officer (*diretor de relações com investidores*), chief executive financial officer (*diretor executivo financeiro*) and chief executive operating officer (*diretor executivo operacional*). Accumulation of functions is allowed.	Unaltered.
Article 28. The duties of the chief executive officer are:	Unaltered.

(a) to submit for approval by the board of directors the annual and/or five-year work plans and budgets, investment plans and new programs to expand the Company and companies controlled by Company, causing the plans, budgets and programs to be carried out on the approved terms;

(b) to submit to the board of directors, after the opinion of the Audit Committee and fiscal council, the latter when installed, the management report and financial statements of the Company, being responsible for their content;

(c) to formulate the Company's operating strategies and directives based on the general orientation provided by the board of directors;

(d) to establish the criteria for executing the resolutions adopted at the general shareholders' meetings and meetings of the board of directors, with the participation of the other officers;

(e) to coordinate and supervise the work of the executive board, and to call and chair its meetings;

(f) to develop, together with the Corporate Governance and Compensation Committee, the succession plans referred to in Article 38, item (l), hereof;

(g) attend meetings of the board of directors and the general meeting, as provided in these Bylaws and the applicable law;

(h) to represent the Company towards shareholders, investors, customers, media, society and towards legal, business and government agencies, protecting the interests of the organization as well as its image; and

(i) to supervise all the Company's activities, and also other powers conferred upon it by the board of directors.

Article 29. In addition to such other functions as may be assigned by the board of directors, the investor relations officer is responsible for providing information to investors, CVM and BM&FBovespa, and for maintaining the Company's registration, forms, records and other documents, up to date, in accordance with the regulations issued by the CVM and other regulatory or self-regulating agencies.	Unaltered.
Article 30. The duties of the chief executive financial officer are:	Unaltered.

(a) to be responsible for the Company's budget control and management, monitoring indicators and analyzing reports to consolidate the budget, aiming to reach budget goals and to provide key managerial information;

(b) to submit to the board of directors, after the opinion of the Audit Committee and fiscal council, the latter when installed, the management report and financial statements of the Company, being responsible for their content;

(c) to ensure that the Controller's department, including the control of management and of costs, provides indicators for decision-making, detecting elements that may influence the Company's results;

(d) to be responsible for the control of cash flow and investments aiming to maximize the financial result, within risk levels previously established by the Company;

(e) to ensure the efficient control of the bank loans operations of the customers (bank transfer) in the deadline established, and be responsible for paying taxes and procedures supervision;

(f) to perform investments feasibility studies related to new business, mergers and acquisitions in order to give support for decision-making;

(g) to ensure proper management of the Company's financial resources, as well as the relation between assets and liabilities through risk analysis of changes in the cost of liabilities in order to ensure the financial health of the Company;

(h) to define strategies and guidelines for the Company, through annual planning of actions and elaboration of budget, together with other officers, aiming the goals established by the Company;

(i) to participate in the executive board meetings (Article 24), in order to take decisions and define strategies jointly with the other officers, aiming at the Company's development and success; and

(j) to represent the Company towards shareholders, investors, customers, media, corporations, the society and towards legal, corporate and governmental bodies, protecting the interests of the organization as well as its image.

Article 31. The duties of chief executive operating officer, in addition to such other functions as may be assigned by the board of directors: Unaltered.

(a) to promote the development of Company's activities, pursuant to its corporate purpose, in addition to the activities of other officers;

(b) to coordinate the Company's and its subsidiaries' activities, observing the duties and responsibilities of other officers;

(c) to coordinate the performance of its area and specific liabilities with those of the other officers;

(d) ensure the execution of projects through the planning, management and supervision of works, aiming at ensuring the compliance with the physical and financial schedule, assuring the quality standard established by the Company and within regulated environmental guidelines;

(e) attract and develop businesses, by means of the identification, market studies and competitive intelligence and market prospect, aiming at sustaining the Company's competitiveness and profitability;

(f) be liable for the domestic technical management by monitoring the entire technical assets including projects, costs, logistics, planning, security

and sustainability aiming at ensuring the evolution of projects according to the physical and financial schedule established;

(g) be liable for market studies through the identification of regional factors, economic and physical feasibility analyses for the project development, with a view to subsidizing the land acquisition;

(h) submit the purchase of land and/or stake in projects for approval by executive or advisory committees of the board of directors, eventually created for such purpose;

(i) monitor the progress of projects and support to the works, involving from preliminary phase until the delivery of work, aiming at cooperating to achieve the results established in terms of quality, financial return and customer satisfaction;

(j) ensure the correct observance and compliance with the environmental laws and requirements in the acquisition of land, interest or project launches;

(k) ensure the correct delivery of projects to clients, being liable for delivering entire related legal documentation, complying with the guidelines set out by the Company;

(l) be liable for creating and developing new products nationwide through marketing analyses, innovation, technical feasibility studies, interacting with other areas involved in the process with a view to launching different products in the market;

(m) monitor the domestic and international markets, especially competitors, with respect to the development of new technologies and/or new practices or products, seeking to maintain the Company's competitiveness;

(n) define the guidelines of new partnerships or entities in order to make feasible new projects, complying with the policies and strategies previously established by the Company;

(o) define guidelines to approve new partners in the building sector, being liable for monitoring the costs, terms and quality of services rendered by these partners, as well as partner's environmental management and survey of entire related documentation to be submitted;

(p) conduct the budgetary management of the Company's areas under his responsibility and from time to time supervising and monitoring management and costs, aiming at ensuring the compliance with the budget established;

(q) monitor and be liable for variations in the success or failure of projects, results contracted and projected, through managerial reports, aiming at conducting continued improvements to the Company's processes;

(r) be liable for keeping the continued upgrade and technical evolution of his staff, besides promoting the motivation of these professionals;

(s) position the Company in the market by developing and maintaining its image and its products, in order to keep its visibility with its current and potential clients; and

(t) to represent the Company towards customers, media, the society and legal, business and government bodies, protecting the interests of the organization and watching over its image.

Art. 32. The Company shall be represented, and shall only be considered to be validly bound, by the act or signature of: Unaltered.

(a) any two officers;

(b) any officer acting jointly with an attorney-in-fact with specific powers; or

(c) two attorneys-in-fact with specific powers.

§1. The Company shall be represented in accordance with the immediately preceding provisions of this Article 33 in the incorporation of, or acquisition of interests in, special purpose companies (SPCs) and/or consortiums which have as their corporate purpose the planning, promotion, development, income generation and sale of real estate projects.

§2º. The Company may be severally represented by only one Officer or attorney-in-fact with specific powers, without the formalities provided for in this Article 33, in the practice of the following acts:

(a) for the purposes of receiving service of process or notice, giving testimony or the Company representation in court and in administrative proceedings;

(b) the Company representation at general meetings and partners' meetings of entities in which it holds interest; and

(c) the practice of administrative routines, inclusive before public, state, federal agencies, and of the Federal District, environmental, financial institutions, mixed-economy entities, independent governmental agencies, boards of trade, labor court, INSS (Brazilian Social Security Institute), Internal Revenue Service, Federal Savings Bank, Caixa Seguros, FGTS (Government Severance Indemnity Fund for Employees), payment banks and others of same nature and notary offices in general.

§3. Powers of attorney shall always be granted or revoked by any two officers, who shall establish the powers of the attorney-in-fact. Except in the case of powers of attorney granted to represent the Company in legal proceedings, powers of attorney shall not have a term of more than two (2) years.

§4. The Board of Directors may authorize the practice of specific acts binding the Company by the signature of only one Officer or an attorney-in-fact regularly empowered, or also, establish the competence and authority for the practice of acts by a single representative.

SECTION IV. - ADVISORY COMMITTEES — Unaltered.

Article 33. The board of directors shall have, as advisory bodies, an Audit Committee and a Corporate Governance and Compensation Committee, which shall, within their competence, provide subsidies to the decisions of the board of directors and, if the latter so determine, assist the executive board in implementing internal policies approved by the board of directors.

§1. Since these are advisory bodies, the committees' decisions mean recommendations to the board of directors, which shall be accompanied by related grounds for the board of directors' decision-making process.

§2. The board of directors may determine the creation of other advisory committees, defining its composition and specific powers.

Art. 34. The Advisory Committees shall meet regularly, deciding by a simple majority of its members. — Unaltered.

§1. The meetings of the Advisory Committees may be held jointly amongst committees, or with the board of directors, should it be deemed necessary given the nature of matter.

§2. Each Advisory Committee will have, among its members, a chairman who will manage the tasks of the Committee, organizing the agenda of its meetings, overseeing the drafting of the correspondent minutes, informing the board of directors about the Committee's work and acting along with the executive board in the necessary assistance to the implementation of internal policies within the scope of its duties.

§3. Resolutions and statements of each Advisory Committee shall be drawn up in books to be open and kept by the Company at its headquarters.

§4. In performing their duties, the Advisory Committees shall have full access to the information they need and shall have the appropriate administrative structure and resources to hire independent advice, at its discretion and under conditions, including those of remuneration, that may be hired directly by the members of the Advisory Committees.

§5. Whenever necessary, the members of the executive board or of the board of directors can be invited to participate in the meetings of the Advisory Committees.

Audit Committee — Unaltered.

Article 35. The Audit Committee is permanent composed of, at least, 3 members, all of them Independent Board Members.

§1. In any case, members of the Audit Committee shall meet the requirements set forth in §2 of Article 18 hereof, as well as the other

requirements of independence and experience in matters relating to accounting, auditing, finance, taxation and internal controls required by the Securities and Exchange Commission ("SEC") and the New York Stock Exchange ("NYSE"), and at least one of the members shall have vast experience in accounting and financial management.	
§2. The members of the Audit Committee shall be appointed by the Nominating and Corporate Governance Committee and elected by the board of directors for a term of two years, with reelection being allowed.	
Art. 36. It is incumbent on the Audit Committee, amongst other functions that may be assigned to it by board of directors or that are required by SEC and NYSE rules, always reporting to the board of directors in the exercise of its functions, to:	Unaltered.
(a) recommend the independent auditors to the preparation or publication of audit opinion or other services related to audit, review and certification, approving their remuneration and scope of contracted services;	
(b) supervise the work of independent auditors;	
(c) review and approve the scope(s) of the annual(s) audit plan(s) of independent auditors;	
(d) evaluate the qualifications, performance and independence of auditors;	
(e) establish guidelines for the hiring, by the Company, of employees or former employees of a company that has provided audit services to the Company;	
(f) at least once a year, evaluate performance, responsibilities, budget and staffing of the internal audit function of the Company, as well as reviewing the internal audit plan (including reviewing the responsibilities, budget and staff of internal audit function of the Company together with its independent auditors);	
(g) review and discuss with Company management and independent auditors, in separate or joint meetings, the annual audited financial statements;	
(h) review, together with management, the Company's general policies on disclosure of results as well as on guidance on the financial information and earnings provided to analysts and credit risk rating agencies, including, in each case, the type of information to be disclosed and the type of presentation to be made, with special attention to usage of financial information not provided for in generally accepted accounting principles;	
(i) review, periodically, together with the Company's management and independent auditors, in separate or joint meetings: (i) any reviews or other written communications prepared by management and/or by independent	

auditors, containing relevant questions on the disclosure of financial information or understandings adopted in the preparation of financial statements; (ii) the critical accounting policies and practices of the Company; (iii) transactions with related parties, as well as the operations and structures not reflected in financial statements; (iv) any relevant issues regarding accounting principles and presentation of financial statements, including any significant changes in the choice or application of accounting principles by the Company, and (v) the effect of initiatives or acts, applicable to the Company, by authorities of an administrative nature or in charge of accounting rules;

(j) review, together with the chief executive officer and the chief executive financial officer, the Company's procedures and controls of disclosure, as well as internal controls related to the financial reports, including the statement of any significant deficiencies and relevant flaws in the design or operation of internal controls related to the financial reports, which are reasonably likely to affect the Company's ability to record, process, summarize and report financial information, as well as any fraud involving members of management or other employees who have significant role in the internal control related to the financial reports;

(k) consider and discuss with the independent auditors any audit problems or difficulties, as well as management's response to those, such as: (i) restrictions to the scope of independent auditors activities, or to the access to required information; (ii) accounting adjustments that were not subject to reservation notice or proposal by the auditor, but that have been analyzed for its relevance or other reason; (iii) communications between the audit team and the auditing firm's national office in respect to auditing or accounting issues raised by contracting, and (iv) any opinion to the management or letter on internal controls issued by the auditor, or intended to be issued by the auditor;

(l) settle any disagreements between management and any independent auditors, in relation to the Company's financial reports;

(m) review the Company's policies and practices for purpose of risk assessment and risk management, including through discussion with management of the major financial risks to which the Company is exposed, and the measures implemented to monitor and control such exposures;

(n) assist the board of directors in carrying out oversight functions of the executive board;

(o) review the Company's Code of Ethics and Conduct, as well as the procedures adopted for monitoring the conformity with it, including procedures for receiving, preserving and treating complaints received by the Company regarding accounting matters, auditing or internal accounting controls as well as procedures for submission, by employees of the Company, on an anonymous and confidential basis, of issues of concern regarding questionable accounting or auditing matters;

(p) review annually the conformity with applicable law and Code of Ethics and Conduct, including through a review of any reports prepared by lawyers representing the Company, addressing the relevant law violation or breach of fiduciary duty;

(q) analyze possible conflicts of interest involving members of the board of directors, as well as provide opinion on whether any such directors should vote in any matter that may give rise to conflict of interests or not, and

(r) analyze any complaints regarding accounting, auditing and internal accounting controls matters received in accordance with the procedures above.

Corporate Governance and Compensation Committee	Unaltered.

Article 37. The Corporate Governance and Compensation Committee is permanent, composed of, at least, 3 members, all of whom shall be Independent Members.

§1. It is desirable that at least one (1) of the members of the Corporate Governance and Compensation Committee have previous experience with management of human resources, and with the development of functions related to the establishment of compensation policies, corporate goals and with personnel recruitment and retention.

§2. The Corporate Governance and Compensation Committee shall be elected by the Board of Directors for a term of two years, with reelection being allowed.

Article 38. It is incumbent upon the Corporate Governance and Compensation Committee, amongst other functions that may be assigned to it by board of directors, to:	Unaltered.

(a) propose to the board of directors, and annually review, the parameters and guidelines and the consequent policy of compensation and other benefits to be granted to the Company's officers, members of the Advisory Committees and other advisory bodies of the board of directors, as well as to senior employees of the Company and its controlled companies;

(b) annually propose to the board of directors the compensation of the Company's officers, to be submitted to the general meeting of shareholders;

(c) propose to the board of directors the orientation of votes to be cast as provided in Article 22, item (i);

(d) recommend for approval by the board of directors, the allocation of the overall amount of the compensation fixed by the shareholders' general meeting, of the monthly fees for each of the members of the management, the Advisory Committees, and other advisory bodies of the Company;

(e) review and recommend, to the approval of the board of directors, in regard to each officer of the Company, its: (i) annual salary level; (ii) annual compensation incentive and long term compensation incentive; (iii) conditions applicable for its hiring, resignation and change of position; and (iv) any other type of compensation, indemnification and benefits;

(f) recommend, to the approval of the board of directors, the prior approval of implementation, change in conditions or granting made in accordance with the long-term compensation incentive plan of the officers and employees, including the granting of stock options to officers and employees or persons providing services to the Company and to companies controlled by the Company;

(g) recommend, to the approval of the board of directors, the allocation, to the Company's officers, of their profit-sharing compensation, as based in the earnings stated in the balance sheets drafted by the Company, including interim balance sheets, respecting the limitations and provisions provided by law and in these Bylaws; and

(h) review, and submit to the board of directors, the goals and aims related to the officers and senior employees compensation plan, monitoring its implementation and performing the evaluation of performance of such officers and senior employees in the face of such goals and aims;

(i) identify qualified persons to become members of the board of directors and board of executive officers and appoint these candidates to the board of directors, observing the legal, regulatory rules hereof in relation to requirements and impediments and Management election;

(j) identify qualified persons for other senior executive positions at the Company and its subsidiaries, appointing them to the board of directors;

(k) recommend the appointment of members of the Audit Committee and other advisory committees;

(l) develop jointly with the chief executive officer, succession plans so that to ensure that positions at the Management bodies are always held by qualified persons, acquainted with the activities of the Company and its subsidiaries, and competent to implement its business plans, its objectives in the long term and ensure the continuity of the Company;

(m) develop, review and advise the board of directors on the wording of the Manual for Disclosure and Use of Information and Policy for Trading in Securities Issued by the Company, as well as other in-company’s policies related to corporate governance deemed necessary;

(n) periodically review the responsibilities of all Advisory Committees and other advisory bodies and advise on any amendment proposal to the board of directors;

(o) continuously monitor and ensure the compliance with the Company's corporate governance guidelines and principles, proposing improvements and alterations;

(p) prepare an annual report related to the performance of its duties, evaluating the performance of members of the board of directors and board of executive officers, the compliance with the Company's corporate governance guidelines and other matters the Nominating and Corporate Governance Committee deems relevant, as well making recommendations as to the number of members, composition and operation of the Company's bodies; and

(q) propose actions related to corporate sustainability and social responsibility, as well as develop strategies to maintain or add value to the Company's institutional image.

CHAPTER V	Unaltered.
FISCAL COUNCIL (*CONSELHO FISCAL*)	
Art. 39. The fiscal council shall not be permanent, being installed at the request of shareholders and shall have the powers, duties and responsibilities established by law. The fiscal council shall cease functioning at the first general shareholders' meeting following its formation, and its members may be re-elected.	
Art. 40. The fiscal council is composed of at least three (3) and up to five (5) effective members, with an equal number of alternates, all elected by the shareholders in general meeting.	Unaltered.
§1. The remuneration of the members of the fiscal council shall be fixed at the general shareholders' meeting at which they are elected.	
§2. The investiture of the members of the fiscal council members is conditional upon their execution of the Statement of Consent from Fiscal Council Members (*Termo de Anuência dos Membros do Conselho Fiscal*) provided for under the Novo Mercado Rules.	
Art. 41. The fiscal council shall meet whenever necessary, at the call of any of its members, and its resolutions shall be recorded in minutes.	Unaltered.
CHAPTER VI	Unaltered.
FISCAL YEAR, BALANCE SHEET AND RESULTS	
Art. 42. The fiscal year shall begin on January 1st and end on December 31st of each year. At the end of each fiscal year and each calendar quarter, the financial statements provided for by law shall be prepared.	
Art. 43. The Company, by resolution of the board of directors, may draw up half-yearly, quarterly or monthly balance sheets, and declare dividends on account of the profits shown on such balance sheets. The Company, by resolution of the board of directors, may also declare interim dividends on account of accumulated profits or profit reserves shown on the last annual or half-yearly balance sheet.	Unaltered.

§1. The Company may pay interest on its own capital, to be credited to annual or interim dividends.

§2. The dividends and interest on its own capital distributed under the terms of this Article 43 shall be attributed to the mandatory dividend.

Art. 44. Prior to any distribution, any accumulated losses and provision for income tax shall be deducted from the profits for the year. Unaltered.

§1. From the amount calculated in accordance with this Article, the profit shares of the members of the Company's management shall be calculated, subject to the legal maximum, to be distributed according to the rules established by the board of directors.

§2. After the deduction referred to in the preceding paragraph, the following allocations shall be made from the net profits for the year:

(a) 5% (five percent) to the legal reserve, until the legal reserve is equal to 20% (twenty percent) of the paid-up capital or attains the limit established in Article 193, §1 of Corporation Law;

(b) from the remaining net profits for the year, after the deduction referred to in item (a) of this Article 44 and the adjustment provided for in Article 202 of Corporation Law, 25% (twenty-five percent) shall be allocated to payment of the mandatory dividend to all shareholders; and

(c) an amount not greater than 71.25% (seventy-one and twenty-five one-hundredths percent) of the net profits shall be allocated to the creation of an Investment Reserve, for the purpose of financing the expansion of Company's and of its controlled companies' business, through subscribing for capital increases, creating new projects or participating in consortiums or other types of association, among other means of achieving the Company's corporate purpose.

§3. The reserve established in item (c) of §2 of this Article 44 ~~47~~ may not exceed 80% (eighty percent) of the Company's capital. Should the reserve reach such limit, the shareholders in general meeting decide on the allocation of the excess, either distributing it to the shareholders or using it to increase the capital of the Company.

§4. After the distribution provided for in the previous paragraphs, the shareholders in general meeting shall determine the allocation of the remaining balance of the net profits for the year, after hearing the board of directors and subject to applicable law.

CHAPTER VII Unaltered.

CONTROL AND ABSENCE OF CONTROL

Art. 45. Any Disposal of Control of the Company, in either a single transaction or a series of transactions, shall be contracted subject to a condition, either precedent or subsequent, under which the Acquirer of Control undertakes to make a public tender offer for the shares of the

remaining shareholders in accordance with applicable law and the Novo Mercado Rules and on terms that ensure equal treatment with the Disposing Controlling Shareholder.	
Article 46. The public tender offer referred to in Article 45 shall also be made (a) in the event of an assignment for value of rights to subscribe for shares or other securities or rights convertible into shares, which assignment results in a Disposal of Control of the Company; or (b) in the event of the disposal of control of a company that holds Control of the Company, in which case the Disposing Controlling Shareholder shall be obligated to declare to BM&FBovespa the value attributed to the Company in the disposal and to submit documentation to prove the declared value.	Unaltered.
Article 47. Any person which acquires Control by reason of a private purchase agreement made with the Controlling Shareholder involving any number of shares is required to: (a) make the public tender offer referred to in Article 45; (b) pay, as set forth herein, the amount equivalent to the difference between the price paid on the public tender offer and the amount paid by share eventually acquired in the stock exchange for a six-month period prior to the acquisition of Control, duly adjusted for inflation until date of payment. Said amount shall be distributed amongst all people who sold Company's shares on the trading days the Acquirer of Control carried out the acquisitions, in the proportion of daily net selling balance for each of them, and BM&FBovespa shall be responsible for operating the distribution, according to its regulations; and (c) take such action as may be necessary to restore the Minimum Free Float of the Company's Shares within the six (6) months following the acquisition of Control. For the purposes of this item, "Minimum Free Float of the Company's Shares" means the Shares of the Company under negotiation, necessary for the Company to be admitted in the Novo Mercado, a percentage that shall be kept during the whole period that Company's securities are registered for trading in Novo Mercado, which should be at least 25% (twenty-five percent) of the total outstanding shares of the Company.	Unaltered.
Article 48. The Company shall not record (i) any transfer of shares to the Purchaser, or to any other person(s) which acquire Control until such time as they have executed the Statement of Consent from Controlling Shareholders (*Termo de Anuência dos Controladores*) referred to in the Novo Mercado Rules; or (ii) in its headquarters, no shareholders' agreement that provides for the exercise of Control, until the signatories to the agreement have executed the Statement of Consent from Controlling Shareholders.	Unaltered.
Article 49. In the event of cancellation of the Company's registration as a publicly-held company or its exit from the Novo Mercado, due to listing of the Company's shares for trading off the Novo Mercado or in virtue of a	Unaltered.

corporate reorganization in which the resulting company's securities are not admitted for trading on the Novo Mercado within the term of one hundred and twenty (120) days counted from the general meeting which approves the reorganization, the public tender offer to be made by the Controlling Shareholder, or the Company, or by the shareholders referred to in Article 51 (b), items "i" and "ii", as applicable, shall do a public tender offer for the acquisition of shares of the remaining shareholders, offering at least the Economic Value determined in the appraisal report drafted in accordance to Article 9, item (b), and in observance of applicable law and regulations.	
Article 50. In case there is no Controlling Shareholder:	Unaltered.
(a) whenever the shareholders in general meeting approve cancellation of the Company's registration as a publicly-held company, the public tender offer shall be made by the Company itself, by the minimum price correspondent to the Economic Value determined in the appraisal report drafted in accordance to Article 9, item (b), and in observance of applicable law and regulations, provided, however, that the Company may acquire shares held by shareholders which voted in favor of cancellation of the Company's registration at the general meeting at which the cancellation was approved only after it has acquired the shares held by the shareholders which did not vote in favor of cancellation and which accept the public tender offer; and	
(b) in case it is approved the Company's exit from the Novo Mercado, due to listing of the Company's shares for trading off the Novo Mercado or in virtue of a corporate reorganization in which the resulting company's securities are not admitted for trading on the Novo Mercado within the term of one hundred and twenty (120) days counted from the general meeting which approves the reorganization, the Company's exit from Novo Mercado shall be conditioned to the public tender offer in the same conditions as described in Article 49 above;	
i. Said shareholders' general meeting shall determine the person(s) in charge of making the public offer for the acquisition of shares, which (who), present at the meeting, shall expressly assume the obligation to make the offer;	
ii. In the event that the persons in charge of making the public offer for the acquisition of shares cannot be determined, in the case of the operation or corporate reorganization, in which the company resulting from such reorganization does not have its securities admitted to trading in the Novo Mercado, the shareholders which / who voted for the corporate reorganization shall make said offer.	
Article 51. In case the Company has no Controlling Shareholder and BM&FBovespa determines that the price of securities issued by the Company shall be quoted separately, or that trading in securities issued by the Company on the Novo Mercado shall be suspended by reason of non-compliance with obligations under the Novo Mercado Rules, the chairman of the board of directors shall call, within the two (2) days following the determination (counting only the days on which the newspapers habitually used by the Company are issued), an extraordinary	Unaltered.

general shareholders' meeting to replace the entire board of directors.

§1 In the event the extraordinary general shareholders' meeting referred to in this Article 51 is not called by the chairman of the board of directors within the two-day time period, the meeting may be called by any shareholder of the Company.

§2. The new board of directors elected at the extraordinary general shareholders' meeting referred to in the preceding provisions of this Article 51 shall cure the non-compliance with the obligations under the Novo Mercado Rules in the shortest period of time possible or within the new time period granted by BM&FBovespa for this purpose, whichever is shorter.

Article 52. The Company's exit from the Novo Mercado due to the noncompliance with the liabilities contained in the Novo Mercado Rules is subject to the making of public offer for the acquisition of shares, at least, for the Economic Value of the shares, determined in the appraisal report drafted in accordance to Article 9, item (b), and in observance of applicable law and regulations. Unaltered.

§1. The Controlling Shareholder shall make the public offer for the acquisition of shares provided for in the *caput* of this Article 52.

§2. In case the Company has no Controlling Shareholder, where the Company exits the Novo Mercado by the reason referred to in the *caput* of this Article 52 resulting from:

(a) a resolution adopted at a general meeting of shareholders, the public tender offer shall be made by the shareholders which voted in favor of the resolution that resulted in non-compliance; and

(b) an act or event of Management, the Management shall call a general meeting to decide on the manner of solving the non-compliance and on the possible exit of the Company from Novo Mercado. In case the general meeting decides that the Company shall exit the Novo Mercado, the general meeting shall determine the person(s) in charge of making the public offer for the acquisition of shares as set forth in *caput*, which (who), present at the meeting, shall expressly assume the obligation to make the offer.

CHAPTER VIII Unaltered.

PUBLIC TENDER OFFER FOR PURCHASE OF SHARES IN CASE OF OBTAINING A RELEVANT EQUITY STAKE

Article 53. Any shareholder or Group of Shareholders ("Relevant Shareholder") who comes to obtain: (a) a direct or indirect equity stake equal to or higher than 30% of the total shares issued by the Company; or (b) title to any other partners' or equity rights, including by way of usufruct, that enables it to have voting rights pertaining to shares issued by the Company and which represent 30% or more of its corporate capital, shall (i) give immediate notice, by means of a statement to the investors relations officer, in accordance with CVM Instruction No. 358/02, of such

acquisition; and (ii) make a public tender offer for acquisition of the shares held by the remaining shareholders of the Company.

§1. The Relevant Shareholder shall, within the final deadline of 45 days counted from the date of the statement mentioned in Article 53, promote the publication of a tender offer announcement for the acquisition of the totality of the shares issued by the Company and held by the other shareholders, in accordance with the provisions of Corporation Law, the regulations enacted by CVM and stock exchanges in which the securities issued by the Company are traded, and with the rules established in these Bylaws.

§2. The Relevant Shareholder shall comply with any requests or demands by the CVM within the terms established under the applicable regulation.

§3. The price to be offered for the shares issued by the Company subject to the tender offer ("Offer Price") shall be equivalent, at least, to the Economic Value, determined in accordance with an appraisal report made pursuant to the provisions of Article 9, item (c), and of Article 10.

§4. The tender offer must necessarily comply with the following principles and procedures, together with others, whether applicable, and as expressly established in Article 4 of CVM Instruction No. 361/02 or any other regulation that comes to replace it:

(a) it shall be directed equally to all shareholders of the Company;

(b) it shall be effected by an auction to be held on BM&FBovespa;

(c) it shall be performed in a manner as to assure equal treatment to all recipients, allowing them to obtain adequate information about the Company and the offeror and providing them with the elements required for taking an informed and independent decision in regard of tendering their shares;

(d) it shall be immutable and irrevocable after the publication of the tender offer announcement, in accordance with CVM Instruction No. 361/02, except for what provided in Article 54, §2;

(e) it shall be launched at the price determined in accordance with the provisions of this Article 53 and settled in cash, in national currency; and

(f) it shall be instructed with the appraisal report of the Company referred to in §3 above.

Article 54. The shareholders with title to at least 10% of the shares issued by the Company, excluding from such total the shares held by the Relevant Shareholder, may request to the management of the Company that a special general meeting is called to decide on the performance of a new appraisal of the Company for means of reviewing the Offer Price, so that a report is drafted also in accordance with the appraisal report referred to in Article 53, §4, item (f), and pursuant to the procedures provided under Article 4-A

Unaltered.

of Corporation Law and subject to the provisions of the applicable regulations enacted by CVM and of this Chapter.

§1. In the special general meeting referred to in Article 54, all shareholders, except for the Relevant Shareholder, shall be entitled to vote.

§2. In case the special general meeting referred to in this Article 54 decides that a new appraisal shall be performed and such new report comes to establish a value higher than that initially applied to the tender offer, the Relevant Shareholder may withdraw the public tender offer, and in this case it shall comply, if applicable, with the procedure set forth in Article 28 of CVM Instruction No. 361/02, or any other rule that comes to replace it, and also dispose of the excess shares within a term of 3 months counted from the date of said special general meeting.

Article 55. The requirement to make a mandatory tender offer under Article 53 does not exclude the possibility of another shareholder of the Company or, if the case, of the Company itself to make another offer, whether competing or isolated, and in accordance with applicable regulations.	Unaltered.
Article 56. The obligations applicable under Article 254-A of Corporation Law and under Article 45 do not exclude the need for the Relevant Shareholder to comply with the obligations applicable under this Chapter.	Unaltered.
Article 57. The requirement to make a mandatory tender offer under Article 53 shall not be applicable in the following cases: (a) when a Controlling Shareholder, who held more than fifty percent (50%) of the Company's capital immediately prior to the obtaining of the 30% equity stake by the Relevant Shareholder, remains in the Company; (b) if the 30% equity stake is obtained by the Relevant Shareholder as a result of purchases made under another public tender offer for the acquisition of shares, made in accordance with the Novo Mercado Rules or with the applicable law, and which had as purpose the acquisition of all the shares issued by the Company, provided that such tender offer shall have been effected for a price at least equal to the Offer Price; (c) if the 30% equity stake is obtained by the Relevant Shareholder (i) involuntarily, as a result of any cancellation of shares in treasury, share redemption or capital reduction of the Company with cancellation of shares; or (ii) by a subscription of shares made under a primary offer and in reason of the fact that such amount was not fully subscribed by the ones entitled to preemptive rights or of the fact that there was not a sufficient number of interested parties for the public distribution; or (iii) as a result of a merger, consolidation or share exchange merger (*incorporação de ações*) involving the Company; and (d) in the case of a Disposal of Control of the Company, in which case the rules provided under Chapter VII of these Bylaws shall be observed.	Unaltered.
Article 58. If any announcement of a public tender offer for acquisition of all shares issued by the Company is published, whether made in accordance with this Chapter VIII or in accordance with the applicable law and	Unaltered.

regulations, and whether settled in cash or by an exchange of securities issued by a publicly-held company, the board of directors shall meet within 10 days to assess the terms and conditions of the offer is made, and complying with the following principles:

(a) the board of directors may hire specialized external advisors, meeting the requirements of Article 10, §1, with the purpose of providing advice in the analysis of the convenience and opportunity of the offer, in consideration of the general interest of the shareholders and of the economic industry of the Company and its controlled companies, and of the liquidity of the securities offered, if the case;

(b) the board of directors shall pronounce for or against the terms of the public offer in analysis, which shall be made through prior grounded opinion disclosed no later than fifteen (15) days upon the publication of the notice of the public offer for the acquisition of shares, which shall include, at least, (i) the convenience and timely nature of the public offer for the acquisition of shares as to the interest of the group of shareholders, and in relation to the liquidity of the securities held thereby; (ii) the repercussions of the public offer for the acquisition of shares on the Company's interests; (iii) the strategic plans disclosed by the offeror in relation to the Company; (iv) other points the board of directors deem relevant, as well as the information required by the applicable rules set forth by the Brazilian Securities and Exchange Commission ("CVM"); and

(c) the public tender offer shall be immutable and irrevocable, but it may conditioned by the offeror, in case of a voluntary offer, upon the minimum acceptance of shareholders that hold at least 2/3 of the Company's shares, excluding those in treasury.

Article 59. In case the Relevant Shareholder does not comply with the obligations required under this Chapter, including in regard of compliance with the deadlines (i) for making the statement referred to in Article 53; (ii) for making or requesting registration of the public tender offer; or (iii) for complying with any requests or demands by the CVM, then the board of directors of the Company shall call an extraordinary general meeting, in which the Relevant Shareholder shall not be entitled to vote, to decide on the suspension of exercise of the Relevant Shareholder rights, in accordance with Article 120 of Corporation Law.	Unaltered.
CHAPTER IX	Unaltered.
LIQUIDATION	
Article 60. The Company shall be dissolved and enter into liquidation in the cases provided for by law, and the shareholders in general meeting shall establish the manner of liquidation and install the fiscal council, which shall function during the period of liquidation. The board of directors shall appoint the liquidator or liquidators and establish their powers and remuneration.	
CHAPTER X	Unaltered.
ARBITRATION	

Article 61. The Company and its shareholders, Managers and members of the fiscal council are obligated to resolve by arbitration before the Arbitration Chamber of Market, any and all dispute or controversy which may arise between or among them arising out of or connection with, in particular, the application, validity, effectiveness, interpretation or violation (and the effects thereof) of the provisions of Corporate Law, these Bylaws, rules and regulations issued by the National Monetary Council, the Central Bank of Brazil, CVM or the Securities and Exchange Commission, and any laws, rules or regulations applicable to the operation of the securities market in general, in addition to the provisions of the Novo Mercado Rules, the Arbitration Rules, the Regulation of Sanctions and the Novo Mercado Participation Agreement.

Sole Paragraph. For the purposes of the provisions in the *caput* of this Article 61, the terms "Arbitration Rules" and "Regulation of Sanctions" employed above shall have the meanings assigned thereto as follows:

"Arbitration Rules" means the Rules of the Arbitration Chamber of the Market, including its later alterations, which rule the arbitration procedure to which all conflicts set forth in the arbitration clause set forth in the *caput* of Article 61 of these Bylaws and contained in the Managers' Consent, Majority Shareholders' Consent, and that of the members of the fiscal council, shall be conducted; and

"Regulation of Sanctions" means the Regulation for Application of Pecuniary Sanctions of the Novo Mercado, including later amendments thereto, which rule the application of sanctions in the cases of total or partial noncompliance with the liabilities arising out of the Novo Mercado Rules.

CHAPTER XI — Unaltered.

GENERAL PROVISIONS

Article 62. The Company shall comply with Shareholders' Agreements registered in accordance with Article 118 of Corporation Law. The Company's management shall refrain from recording the transfer of shares made contrary to such Shareholders' Agreements and the chairman of general shareholders' meetings and board of directors meetings shall not count votes cast in violation of such Shareholders' Agreements.

Article 63. The provisions of the Novo Mercado Rules shall supersede the provisions in the Bylaws in the hypotheses of loss to the rights of those the public offer provided for in these Bylaws are intended to. — Unaltered.

Exhibit B – Information Related To The Company's Capital Stock Reduction

1. Inform the reduction amount and the new capital stock

- Reduction amount: R$219,510,000.00
- New capital stock: R$2,521,151,187.74

2. Explain, in details, the reasons, the form and reduction outcome

As disclosed in the material facts of February 7, 2014, April 29, 2015, August 16, 2016 and December 14, 2016, the Company's management has been conducting studies and analyzing opportunities to separate the business units of the Company and Tenda, its wholly-owned subsidiary, so that these entities become two publicly-held and independent companies.

After analyzing the available options during such period, the Company's management decided to sell 50% of the shares representing Tenda's total capital stock and deliver the remaining 50% of shares representing Tenda's total capital stock to Gafisa's shareholders by means of the Gafisa's Capital Stock Reduction.

We propose that Gafisa's Capital Stock Reduction is made without cancellation of Gafisa's shares, in consideration, the Company's shareholders, will receive 1 common share issued by Tenda for each 1 common share issued by Gafisa, owned by the shareholder, after the reverse split (subject-matter of the agenda of the extraordinary shareholders' meeting summoned for 10 a.m. of February 9, 2017), excluding the treasury shares, totalizing 27,000,000 common shares issued by Tenda, representing 50% of its total capital stock.

Once Gafisa's Capital Stock Reduction and the sale are completed, Tenda will no longer be a wholly-owned subsidiary of Gafisa and will have its shares listed on the traditional segment of BM&FBOVESPA – Bolsa de Valores, Mercadorias e Futuros S.A.

3. Provide a copy of the fiscal council's report, if operational, when the proposal to reduce capital stock is an initiative of management

The effective members of the Company's Fiscal Council, in the exercise of their duties pursuant to item III of Article 163 of the Law No. 6,404/76 and, within the scope of its authority, analyzed the proposal to reduce the Company's capital stock in the total amount of R$219,510,000.00, resulting in a reduction from R$2,740,661,187.74 to R$2,521,151,187.74, without cancellation of shares, pursuant to Article 173 of Law No. 6,404/76, for being deemed as excessive in relation to the Company's purpose, with the delivery to the Company's shareholders, at the proportion of their equity interest in the Company's capital stock, of 27,000,000 common shares representing 50% of the total capital stock of Construtora Tenda S.A., a publicly-held company enrolled with CNPJ/MF under No. 71.476.527/0001-35, NIRE 35.300.348.206 ("Reduction of Capital Stock"), issued their favorable opinion for the approval of the Reduction of Capital Stock by the Company's shareholders convened at the Extraordinary Shareholders' Meeting, under the terms of the Management Proposal.

The Fiscal Council Opinion was executed by Olavo Fortes Campos Rodrigues Júnior, Peter Edward Cortes Marsden Wilson and Laiza Fabiola Martins de Santa Rosa, current sitting member of Gafisa's Fiscal Council, on January 9, 2017.

4. Inform, if applicable: (a) the refund amount per share; (b) the decrease amount of share value to the relevance of inflows, in case of unpaid capital; or (c) the number of shares, purpose of reduction.

(a) the refund amount per share:

We propose that the Gafisa's Capital Stock Reduction is made without cancellation of Gafisa's shares, in consideration, the Company's shareholders will receive 1 common share issued by Tenda for each 1 common share issued by Gafisa, owned by the shareholder, after reverse split (subject-matter of the agenda of the extraordinary shareholders' meeting summoned for 10 a.m. of February 9, 2017), excluding treasury shares, totalizing 27,000,000 common shares, issued by Tenda, representing 50% of its total capital stock.

(b) the decrease amount of share value to the relevance of inflows, in case of unpaid capital:

Not applicable.

(c) the number of shares, purpose of reduction.

Not applicable.

** ** **

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.
Date: January 9, 2017

Gafisa S.A.

By: /s/ Sandro Gamba

Name: Sandro Gamba
Title: Chief Executive Officer

double #000000">
An analysis of revenues by key products in the Company s PSAI segment is given below:

	For the six months ended September 30,		For the three months ended September 30,	
	2011	**2010**	**2011**	**2010**
Clopidogrel	876	683	637	356
Escitalopram oxalate	778	162	509	120
Naproxen	694	301	430	128
Gemcitabine	668	453	438	232
Ramipril	448	319	251	166
Atorvastatin	445	380	191	313
Ciprofloxacin Hcl	375	501	151	250
Rabeprazole	329	268	149	141
Ranitidine	270	280	139	130
Finasteride	245	380	89	139
Others	5,636	5,389	2,949	2,642
Total	**10,764**	**9,116**	**5,933**	**4,617**

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4. Business combination and other acquisitions

Acquisition of GSK s manufacturing facility in Bristol, Tennessee, U.S.A. and product rights

On November 23, 2010, the Company through its wholly-owned subsidiary, Dr. Reddy s Laboratories Tennessee LLC, entered into an asset purchase agreement with Glaxosmithkline LLC and Glaxo Group Limited (collectively, GSK) for the acquisition of GSK s penicillin-based antibiotics manufacturing facility in Bristol, Tennessee, U.S.A., the U.S. FDA approved product related rights over GSK s Augmentin® (branded and generic) and Amoxil® (branded) brands of oral penicillin-based antibiotics in the United States (GSK retained the existing rights for these brands outside the United States), certain raw materials and finished goods inventory associated with Augmentin®, and rights to receive certain transitional services from GSK. The transaction was subsequently consummated on March 29, 2011. The total cash consideration for the transaction amounted to 1,169 (U.S.$26). Through this acquisition, the Company entered the U.S penicillin-containing antibacterial market segment, thereby broadening its portfolio in North America. The Company has accounted for this transaction as an acquisition of business in accordance with IFRS No. 3, Business Combinations (Revised), as the integrated set of assets acquired constitutes a business as defined in the standard. Accordingly, the financial results of this acquired business for the period from March 29, 2011 to March 31, 2011 have been included in the consolidated financial statements of the Company. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

Particulars	**Recognized values on acquisition**
Property, plant and equipment	688
Intangible assets	321
Inventories	146
Other assets	132
Deferred tax liability	(45)
Net identifiable assets and liabilities	**1,242**
Negative goodwill recognized in other expense/(income), net[(1)]	(73)
Consideration paid in cash	**1,169**

(1) This negative goodwill on acquisition was attributable mainly to intangible and other assets acquired at prices below their fair market values.

No pro-forma information was disclosed in the audited consolidated financial statements for the year ended March 31, 2011 as the GSK acquisition was immaterial.

5. Financial instruments

Hedging of fluctuations in foreign currency

The Company is exposed to exchange rate risk which arises from its foreign exchange revenues, primarily in U.S. dollars, British Pounds, Russian roubles and Euros, and foreign currency debt in U.S. dollars, Russian roubles and Euros.

The Company uses forward exchange contracts and option contracts (derivatives) to mitigate its risk of changes in foreign currency exchange rates. Where necessary, the forward exchange contracts are rolled over at maturity. Further, the Company uses non-derivative financial instruments as part of its foreign currency exposure risk mitigation strategy.

Forecasted transactions

Derivatives:
The Company classifies its option and forward contract hedging forecasted transactions as cash flow hedges and measures them at fair value. The fair value of option and forward contracts used as hedges of forecasted transactions at September 30, 2011 was a liability of 1,108 (as compared to an asset of 516 at March 31, 2011). This amount was recognized as derivatives measured at fair value.

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5. Financial instruments (continued)

Non-derivatives:

The Company designates as hedging instruments certain non-derivative financial liabilities for hedging of foreign currency risk associated with forecasted transactions and, accordingly, applies cash flow hedge accounting for such relationships. The fair value of such non-derivative liabilities was 11,554 as at September 30, 2011 as compared to 8,398 as at March 31, 2011 which has been disclosed as a part of Short term borrowings in the statements of financial position. Re-measurement of these non-derivative financial liabilities, from their initial recognized value to the value in rupee terms as at the reporting date, resulted in a foreign exchange difference loss of 945 as at September 30, 2011, as compared to a gain of 37 as at March 31, 2011. Such foreign exchange difference has been disclosed as part of the hedging reserve.

Recognized assets and liabilities

Changes in the fair value of forward exchange contracts and option contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognized in the income statements. Both the changes in fair value of the forward contracts and the foreign exchange gains and losses relating to the monetary items are recognized as part of net finance costs . The fair value of forward exchange contracts and option contracts used as economic hedges of monetary assets and liabilities in foreign currencies are recognized in fair value derivatives was a liability of 298 at September 30, 2011 (as compared to an asset of 268 at March 31, 2011).

Fair values

The net carrying amount and fair value of all financial instruments, except derivative financial instruments, as at September 30, 2011 was a net liability of 20,458 (as compared to a net liability of 19,171 at March 31, 2011).

Recognition:

In respect of foreign currency derivative financial instruments, the Company recognized a net loss of 471 and a net gain of 186 for the three months ended September 30, 2011 and 2010, respectively, and net loss of 315 and a net gain of 174 for the six months ended September 30, 2011 and 2010, respectively. These amounts are included in finance income/(expense).

In respect of foreign currency derivative contracts designated as cash flow hedges, the Company has recorded, as a component of equity, a net loss of 1,623 and a net gain of 471 for the three months ended September 30, 2011 and 2010, respectively, and a net loss of 1,563 and 102 for the six months ended September 30, 2011 and 2010, respectively. The Company also recorded, as part of revenue, a net gain of 45 and 28 during the three months ended September 30, 2011 and 2010, respectively, and a net gain of 203 and 154 for six months ended September 30, 2011 and 2010, respectively.

In respect of non-derivative financial liabilities, the Company has recorded, as a component of equity, a net loss of 929 and 0 for the three months ended September 30, 2011 and 2010 respectively and a loss of 982 and 0 for the six months ended September 30, 2011 and 2010.

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6. Cash and cash equivalents

Cash and cash equivalents consist of:

	As of	
	September 30, 2011	**March 31, 2011**
Cash balances	11	10
Balances with banks	5,570	5,247
Time deposit balances with banks	2,015	472
Cash and cash equivalents on the statements of financial position	**7,596**	**5,729**
Bank overdrafts used for cash management purposes	(210)	(69)
Cash and cash equivalents in the cash flow statement	**7,386**	**5,660**

Balances with banks included restricted cash of 303 and 253, for the six months ended September 30, 2011 and the year ended March 31, 2011, which consisted of:

28 as of September 30, 2011 and 20 as of March 31, 2011, representing amounts in the Company s unclaimed dividend account, which are therefore restricted;

150 million as of September 30, 2011 and March 31, 2011, representing amounts in an escrow account for settlement of the payment due in respect of the Company s exercise of the portfolio termination value option under its research and development agreement with I-VEN Pharma Capital Limited;

88 as of September 30, 2011 and 83 as of March 31, 2011, representing amounts deposited as security for a bond executed for an environmental liability relating to the Company s site in Mirfield, United Kingdom; and

37 as of September 30, 2011 and 0 as of March 31, 2011, representing amounts deposited in an escrow account as partial consideration for acquiring an intangible asset.

7. Inventories

Inventories consist of the following:

	As of	
	September 30, 2011	**March 31, 2011**
Raw materials	5,958	4,777
Packing material, stores and spares	1,289	1,115
Work-in-process	4,851	4,220
Finished goods	6,494	5,947
	18,592	**16,059**

During the three months and six months ended September 30, 2011, the Company recorded inventory write-downs of 450 and 755, respectively (as compared to 344 and 586, respectively, for the three months and six months ended September 30, 2010). These adjustments were included in cost of revenues. Cost of revenues for the three months and six months ended September 30, 2011 include raw materials, consumables and changes in finished goods and work in progress recognized in the income statements amounting to 7,008 and 12,838, respectively (as compared to 5,707,

10,748 for the three months and six months ended September 30, 2010). The above table includes inventories amounting to 1,061 and 860 which are carried at fair value less cost to sell as at September 30, 2011 and March 31, 2011, respectively.

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8. Property, plant and equipment

Acquisitions and disposals

During the six months ended September 30, 2011, the Company acquired assets at an aggregate cost of 3,383 (as compared to a cost of 4,396 and 10,145 for the six months ended September 30, 2010 and the year ended March 31, 2011, respectively) including assets acquired through business combinations of 0 (as compared to a cost of 0 for assets acquired through business combinations for the six months ended September 30, 2010 and 677 for the year ended March 31, 2011). Assets with a net book value of 14 were disposed of during the six months ended September 30, 2011 (as compared to 37 and 77 for the six months ended September 30, 2010 and the year ended March 31, 2011, respectively), resulting in a net profit on disposal of 0 (as compared to net profit of 1 and 271 for the six months ended September 30, 2010 and the year ended March 31, 2011, respectively). Depreciation expense for the three months and six months ended September 30, 2011 was 880 and 1,708 respectively (as compared to 732 and 1,420 for the three months and six months ended September 30, 2010 respectively).

Government grants

During the six months ended September 30, 2011, the State of Louisiana approved the Company s application for certain grants associated with construction of a manufacturing facility in the United States amounting to 54 (U.S.$1). As per the terms of the grant, the State of Louisiana has placed certain ongoing conditions on the Company, requiring a minimum cost to be incurred and also requiring employment of a minimum number of people. In proportion to the actual cost incurred, the Company has accrued the proportionate share of the grant as a reduction from the carrying value of property, plant and equipment.

Capital commitments

As of September 30, 2011 and, March 31, 2011, the Company was committed to spend approximately 3,242 and 3,459, respectively, under agreements to purchase property, plant and equipment. This amount is net of capital advances paid in respect of such purchases.

9. Goodwill

Goodwill arising upon acquisitions is not amortized but tested for impairment annually, or more frequently if there are certain internal or external indicators of impairment.

The following table presents the changes in goodwill during the six months ended September 30, 2011 and the year ended March 31, 2011:

	Six months ended September 30, 2011	**Six months ended September 30, 2010**	**Year ended March 31, 2011**
Opening balance [(1)]	18,273	18,267	18,267
Goodwill arising on business combinations			
Effect of translation adjustments	20		6
Closing balance [(1)]	**18,293**	**18,267**	**18,273**
Less: Impairment loss [(2)]	**(16,093)**	**(16,093)**	**(16,093)**
	2,200	**2,174**	**2,180**

(1) This does not include goodwill arising upon investment in associates of 181, which is included in the carrying value of the investment in the equity accounted investees.

(2) The impairment loss of 16,093 includes 16,003, pertaining to the Company s German subsidiary, betapharm Arzneimittel GmbH, which is part of the Company s Global Generics segment.

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10. Other intangible assets

Acquisitions of intangibles

During the three and six months ended September 30, 2011, the Company acquired other intangible assets at an aggregate cost of 96 and 108, respectively (as compared to a cost of 17 and 19 for the three and six months ended September 30, 2010, respectively, and 2,125 for the year ended March 31, 2011) including assets acquired through business combinations of 0 (as compared to a cost of 0 for the three and six months ended September 30, 2011 and 321 for the year ended March 31, 2011). Such acquisitions for the six months ended September 30, 2011 includes 78 (U.S.$1.6) allocated to certain intellectual property rights (patents) acquired.

Amortization expenses for the three and six months ended September 30, 2011 were 389 and 794, respectively (as compared to amortization expenses of 317 and 605 for the three months and six months ended September 30, 2010, respectively).

In November 2007, the Company entered into a Distribution and Supply Agreement with Ceragenix Pharmaceuticals, Inc. and Ceragenix Corporation (collectively, Ceragenix). Under this agreement, the Company made up-front and milestone payments of U.S.$5 and commenced distribution of the dermatological product EpiCeram®, a skin barrier emulsion device, in the United States and its territories. In June 2010, Ceragenix (both entities) filed voluntary petitions under Chapter 11 of the U.S. Bankruptcy Code. On June 24, 2011 the United States Bankruptcy Court for the District of Colorado permitted Ceragenix to sell the patent rights, certain business assets and intellectual property relating to EpiCeram® to PuraCap Pharmaceutical LLC and to terminate the Company s rights under its Distribution and Supply Agreement with Ceragenix. However, the court ordered Ceragenix to pay U.S.$2.75 to the Company out of the sales proceeds of the above mentioned assets and intellectual property, as compensation for the termination of the Distribution and Supply Agreement. Upon termination of the Distribution and Supply Agreement, the Company de-recognized the asset and recorded a gain of 31 (excess of amount received over the carrying value of the asset as at June 24, 2011) as part of other (income)/loss in these unaudited condensed consolidated interim financial statements during the six months ended September 30, 2011.

On March 31, 2011, the Company, through its wholly owned subsidiary Promius Pharma LLC, entered into an agreement with Coria Laboratories Limited (a subsidiary of Valeant Pharmaceuticals International, Inc.) (Coria) for the right to manufacture, distribute and market its Cloderm® (clocortolone pivalate 0.1%) product in the United States. Cloderm® is a cream used for treating dermatological inflammation, and is an existing U.S. FDA approved product. In addition to acquiring all relevant U.S. FDA product regulatory approvals and intellectual property rights (other than trademarks) associated with the Cloderm® product, the Company also acquired an underlying raw material supply contract and an exclusive license to use the trademark Cloderm® for a period of 8 years. The rights and ownership of this trademark would get transferred from Coria to the Company at the end of the 8th year, subject to payment of all royalties under the contract by the Company. Considerations for these transactions includes an upfront payment of 1,605 (U.S.$36) in cash and contingent consideration in the form of a royalty equal to 4% of the Company s net sales of Cloderm® in the United States during the 8 year trademark license period.

Since the integrated set of assets acquired as part of these transactions does not meet the definition of a business, the acquisition has been recorded as a purchase of an integrated set of complementary intangible assets with similar economic useful lives. Furthermore, contingent payments associated with future sales have also been considered as an element of cost, as they are directly associated with the acquisition of absolute control over the product related intangibles and do not relate to any substantive future activities either by the Company or Coria. Accordingly, an amount of 171 (U.S.$4) has been measured as management s best estimate of the present value for the royalty payments over the 8 year trademark license period.

Product related intangibles acquired during the year ended March 31, 2010 included an amount of 2,680 (U.S.$57), representing the value of re-acquired rights on the product portfolio that arose upon the exercise by I-VEN Pharma Capital Limited (I-VEN) of the portfolio termination value option under its research and development agreement with the Company entered into during the year ended March 31, 2005, as amended.

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11. Loans and borrowings

Short term loans and borrowings

The Company had undrawn lines of credit of 13,560 and 13,090 as of September 30, 2011 and March 31, 2011, respectively, from its banks for working capital requirements. These lines of credit are renewable annually. The Company has the right to draw upon these lines of credit based on its requirements.

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

	As at	
	September 30, 2011	March 31, 2011
Rupee borrowings		8.75%
Borrowings on receivables transfer arrangement	LIBOR + 125bps (6%)	LIBOR + 75-100bps
Other foreign currency borrowings	LIBOR + 70-185bps	LIBOR + 50-175bps
	EURIBOR + 60-140bps	EURIBOR + 50-100bps
	(6.39% to 20%)	(5% to 8%)

Transfer of financial asset

During the year ended March 31, 2011, the Company entered into a receivables transfer arrangement with Citibank, India, in which the Company transferred 2,215 (U.S.$49) of short term trade receivables in return for obtaining short term funds. As part of the transaction, the Company provided Citibank, India with credit indemnities over the expected losses of those receivables. Since the Company has retained substantially all of the risks and rewards of ownership of the trade receivables including the contractual rights to the associated cash flows, the Company continues to recognize the full carrying amount of the receivables and has recognized the cash received in respect of the transaction as short term borrowings. As of March 31, 2011, the carrying amount of the transferred short-term receivables which were subject to this arrangement was 838 (U.S.$18.78) and the carrying amount of the associated liability was 825 (U.S.$18.50). During the six months ended September 30, 2011 the Company repaid the entire loan outstanding as at March 31, 2011.

In addition, during the six months ended September 30, 2011, the Company entered into a receivables transfer arrangement with Citibank, India and Deutsche Bank, India, in which the Company transferred 1,309 (U.S.$18.65 and Russian roubles (RUB) 280) of short term trade receivables in return for obtaining short term funds. As of September 30, 2011, the carrying amount of the transferred short-term receivables which were subject to this arrangement was 1,342 (U.S.$18.65 and RUB 280) and the carrying amount of the associated liability was 1,322 (U.S.$18.52 and RUB 272).

Short-term borrowings- hedging instruments

During the year ended March 31, 2011 and for the six months ended September 30, 2011, the Company borrowed foreign currency denominated short term loans amounting to 8,398 and 6,167, respectively. In connection with such borrowings, the Company documented an effective cash flow hedge relationship for the foreign currency exposure associated with such foreign currency borrowings and for the probable anticipated foreign currency sales transactions of approximately 11,554 (U.S.$210 and EUR 19). Accordingly, the foreign exchange differences arising from re-measurement of these foreign currency monetary items before translation into the reporting currency of the Company has been recognized as a component of equity within the hedging reserve . The Company has recorded a loss of 929 towards foreign exchange differences arising from re-measurement of these foreign currency borrowings for

the three months ended September 30, 2011 (as compared to 0 for the three months ended September 30, 2010) and a loss of 982 for the six months ended September 30, 2011 (as compared to 0 for the six months ended September 30, 2010).

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11. Loans and borrowings (continued)

Long-term borrowings

Long term loans and borrowings consist of the following:

	As of	
	September 30, 2011	**March 31, 2011**
Obligations under finance leases	289	256
Bonus debentures	5,035	5,027
	5,324	**5,283**
Less: Current portion		
Obligations under finance leases	30	12
	30	**12**
Non-current portion		
Obligations under finance leases	259	244
Bonus debentures	5,035	5,027
	5,294	**5,271**

Issuance of bonus debentures

As explained in Note 23 of these condensed consolidated interim financial statements, during the year ended March 31, 2011, the Company issued unsecured redeemable bonus debentures amounting to 5,078. In relation to the issuance, the Company has incurred directly attributable transaction cost of 51. The bonus debentures do not carry the right to vote or the right to participate in any of the distributable profits or residual assets of the Company, except that the holders of the bonus debentures participate only to the extent of the face value of the instrument plus accrued and unpaid interest thereon. These bonus debentures are mandatorily redeemable at the face value on March 23, 2014 and the Company is obligated to pay the holders of its bonus debentures an annual interest payment equal to 9.25% of the face value thereof on March 24 of each year until (and including upon) maturity. These bonus debentures are measured at amortized cost using the effective interest rate method. The carrying value of these bonus debentures as at September 30, 2011 was 5,035.

Interest rate profile of long-term debt

An interest rate profile of long-term debt is given below:

	As of	
	September 30, 2011	**March 31, 2011**
Bonus debentures	9.25%	9.25%

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11. Loans and borrowings (continued)

New long-term loan

On September 28, 2011, Dr. Reddy s Laboratories, SA (one of the Company s subsidiaries in Switzerland) (the Swiss Subsidiary), entered into a loan agreement providing for it to borrow the sum of 10,775 (U.S.$220), arranged by Citigroup Global Markets Asia Limited, The Bank Of Tokyo-Mitsubishi Ufj, Ltd., Mizuho Corporate Bank, Ltd., The Bank Of Nova Scotia Asia Limited, Australia and New Zealand Banking Group Limited, and Standard Chartered Bank (Swiss Subsidiary Lenders). The Company irrevocably and unconditionally guaranteed to each of the Swiss Subsidiary Lenders, punctual performance by the Swiss Subsidiary of all of its obligations under the loan agreement. The term of the loan is for sixty months starting from September 30, 2011. The Swiss Subsidiary is required to repay the loan in eight equal quarterly installments commencing at the end of the 39th month and continuing until the end of the 60th month from September 30, 2011. The loan carries an interest rate of 3 months U.S.$LIBOR + 145 basis points. The parent company has guaranteed all obligations of the Swiss Subsidiary under loan agreement. The loan agreement imposes various financial covenants on both the parent company and the Swiss Subsidiary, including without limitation the following (each capitalized term below is as defined in the loan agreement):

Net Financial Indebtedness to EBITDA: The Company s ratio of net financial indebtedness to EBITDA shall not at any time exceed 2.3:1.00

Secured Debt to Financial Indebtedness: The Company s ratio of secured debt to financial indebtedness shall not at any time exceed 0.2:1.00. However, if the ratio of net financial indebtedness to EBITDA falls below 1.5:1.00, the ratio of secured debt to financial indebtedness shall not at any time exceed 0.3:1.00

Gearing ratio: The Company s ratio of financial indebtedness shall not at any time exceed one times tangible net worth.

Interest Cover ratio: The Company s ratio of EBITDA to interest payable (in relation to any period of 12 months ending on the last day of any financial year or financial half year of the Company) shall not at any time be less than 5.00:1.00.

Net Worth: The Swiss Subsidiary shall at all times maintain a positive net worth.

The financial computation for each of the foregoing financial covenants shall be calculated on a semi-annual basis by reference to the consolidated financial statements of the Company, except that the Net Worth covenant shall be calculated by reference to financial statements of the Swiss Subsidiary prepared based on IFRS.

As part of this arrangement, the Swiss Subsidiary agreed to pay U.S.$3.7 in arrangement fees and other administrative charges. These fees and charges had not yet been paid as at September 30, 2011, and thus the Company has recorded U.S.$3.7 as part of other liabilities with a corresponding asset in its unaudited condensed consolidated interim financial statements.

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12. Other (income)/expense, net

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

	Six months ended September 30,		Three months ended September 30,	
	2011	**2010**	**2011**	**2010**
Loss/(profit) on sale of property, plant and equipment and intangible assets, net	(31)	(1)	(8)	
Sale of spent chemical	(172)	(113)	(93)	(56)
Miscellaneous income	(211)	(290)	(119)	(163)
Provision for expected claim from innovator	8			
Other expenses	4		4	
	(402)	**(404)**	**(216)**	**(219)**

13. Finance income/(expense), net

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

	Six months ended September 30,		Three months ended September 30,	
	2011	**2010**	**2011**	**2010**
Interest income	35	97	23	37
Foreign exchange gain/(loss)	309	(274)	151	(49)
Profit on sale of investments	41	57	24	19
Interest expense	(481)	(94)	(248)	(42)
	(96)	**(214)**	**(50)**	**(35)**

14. Share capital and share premium

During the six months ended September 30, 2011 and 2010, 273,754 and 356,190 equity shares, respectively, were issued as a result of the exercise of vested options granted to employees pursuant to the Dr. Reddy s Employees Stock Option Plan - 2002 and Dr. Reddy s Employees Stock Option Plan-2007. During the six months ended September 30, 2011, an aggregate of 10,000 options having an exercise price based upon the fair market value of the underlying shares (or Category A options) were exercised, with each having an exercise price of 448, and 263,754 options having an exercise price based upon par value of the underlying shares (or Category B options) were exercised, with each having an exercise price of 5. The amount of grant date fair value previously recognized for these options has been transferred from share based payment reserve to share premium in the unaudited condensed consolidated statement of changes in equity for the period ended September 30, 2011.

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15. Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the six month period ended September 30, 2011 was based on the profit attributable to equity shareholders of 5,705 (as compared to a profit of 4,963 for the six months ended September 30, 2010) and a weighted average number of equity shares outstanding during the six months ended September 30, 2011 and 2010, calculated as follows:

	Six months ended September 30,	
	2011	**2010**
Issued equity shares as on April 1	169,252,732	168,845,385
Effect of shares issued upon exercise of stock options	144,699	184,123
Weighted average number of equity shares at September 30	169,397,431	169,029,508

The calculation of basic earnings per share for the three month period ended September 30, 2011 was based on the profit attributable to equity shareholders of 3,078 (as compared to a profit of 2,868 for the three months ended September 30, 2010) and a weighted average number of equity shares outstanding during the three months ended September 30, 2011 and 2010, calculated as follows:

	Three months ended September 30,	
	2011	**2010**
Issued equity shares as on July 1	169,475,832	169,144,263
Effect of shares issued on exercise of stock options	12,664	19,935
Weighted average number of equity shares at September 30	169,488,496	169,164,198

Diluted earnings per share

The calculation of diluted earnings per share for the six months ended September 30, 2011 was based on the profit attributable to equity shareholders of 5,705 (as compared to a profit of 4,963 for the six months ended September 30, 2010) and a weighted average number of equity shares outstanding during the six months ended September 30, 2011 and 2010, calculated as follows:

	Six months ended September 30,	
	2011	**2010**
Weighted average number of equity shares at September 30 (Basic)	169,397,431	169,029,508
Effect of stock options outstanding	712,425	869,847
Weighted average number of equity shares at September 30 (Diluted)	170,109,856	169,899,355

The calculation of diluted earnings per share for the three months ended September 30, 2011 was based on the profit attributable to equity shareholders of 3,078 (as compared to 2,868 for the three months ended September 30, 2010) and a weighted average number of equity shares outstanding during the three months ended September 30, 2011 and 2010, calculated as follows:

	Three months ended September 30,	
	2011	**2010**
Weighted average number of ordinary shares at September 30 (Basic)	169,488,496	169,164,198
Effect of stock options outstanding	572,302	700,197
Weighted average number of equity shares at September 30 (Diluted)	170,060,797	169,864,395

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16. Employee stock incentive plans

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

The Company instituted the DRL 2002 Plan for all eligible employees pursuant to the special resolution approved by the shareholders in the Annual General Meeting held on September 24, 2001. The DRL 2002 Plan covers all employees of DRL and its subsidiaries and directors (excluding promoter directors) of DRL and its subsidiaries (collectively, eligible employees). The compensation committee of the Board of DRL (the Compensation Committee) administers the DRL 2002 Plan and grants stock options to eligible employees. The Compensation Committee determines which eligible employees will receive options, the number of options to be granted, the exercise price, the vesting period and the exercise period. The vesting period is determined for all options issued on the date of grant. The options issued under the DRL 2002 Plan vest in periods ranging between one and four years and generally have a maximum contractual term of five years.

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

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

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

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

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

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

Under the DRL 2002 Plan, the exercise price of the fair market value options granted under Category A above is determined based on the average closing price for 30 days prior to the grant in the stock exchange where there is highest trading volume during that period. Notwithstanding the foregoing, the Compensation Committee may, after obtaining the approval of the shareholders in the annual general meeting, grant options with a per share exercise price other than fair market value and par value of the equity shares.

After the stock split effected in the form of stock dividend issued by the Company in August 2006, the DRL 2002 Plan provides for stock options granted in the above two categories as follows:

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

In April 2007, certain employees surrendered their par value options under category B of the DRL 2002 Plan in exchange for par value options under category B of the DRL 2007 Plan (discussed below). The incremental cost due to such modifications was insignificant.

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16. Employee stock incentive plans (continued)

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

The Company instituted the DRL 2007 Plan for all eligible employees in pursuance of the special resolution approved by the shareholders in the Annual General Meeting held on July 27, 2005. The DRL 2007 Plan became effective upon its approval by the Board of Directors on January 22, 2007. The DRL 2007 Plan covers all employees of DRL and its subsidiaries and directors (excluding promoter directors) of DRL and its subsidiaries (collectively, eligible employees). The Compensation Committee administers the DRL 2007 Plan and grants stock options to eligible employees. The Compensation Committee determines which eligible employees will receive options, the number of options to be granted, the exercise price, the vesting period and the exercise period. The vesting period is determined for all options issued on the date of grant. The options issued under DRL 2007 Plan vest in periods ranging between one and four years and generally have a maximum contractual term of five years.

The DRL 2007 Plan provides for option grants in two categories:

Category A: 382,695 stock options out of the total of 1,530,779 stock options reserved for grant having an exercise price equal to the fair market value of the underlying equity shares on the date of grant; and

Category B: 1,148,084 stock options out of the total of 1,530,779 stock options reserved for grant having an exercise price equal to the par value of the underlying equity shares (i.e., 5 per option).

Aurigene Discovery Technologies Ltd. Employee Stock Option Plan 2003 (the Aurigene ESOP Plan):

Aurigene Discovery Technologies Limited (Aurigene), a consolidated subsidiary, adopted the Aurigene ESOP Plan to provide for issuance of stock options to employees of Aurigene and its subsidiary, Aurigene Discovery Technologies Inc., who have completed one full year of service with Aurigene or its subsidiary. Aurigene has reserved 4,550,000 of its ordinary shares for issuance under this plan. Under the Aurigene ESOP Plan, stock options may be granted at an exercise price as determined by Aurigene s compensation committee. The options issued under the Aurigene ESOP Plan vest in periods ranging from one to three years, including certain options which vest immediately on grant, and generally have a maximum contractual term of three years.

During the year ended March 31, 2008, the Aurigene ESOP Plan was amended to increase the total number of options reserved for issuance to 7,500,000 and to provide for Aurigene s recovery of the Fringe Benefit Tax from employees upon the exercise of their stock options.

During the three months ended September 30, 2011, the Company cancelled 1,009,090 stock options which were fully vested and outstanding under the Aurigene ESOP Plan, upon surrender by the employees. Accordingly, no stock options were outstanding under the Aurigene ESOP Plan as at September 30, 2011.

Aurigene Discovery Technologies Ltd. Management Group Stock Grant Plan (the Aurigene Management Plan):

In the year ended March 31, 2004, Aurigene adopted the Aurigene Management Plan to provide for issuance of stock options to management employees of Aurigene and its subsidiary Aurigene Discovery Technologies Inc. Aurigene has reserved 2,950,000 of its ordinary shares for issuance under this plan. Under the Aurigene Management Plan, stock options may be granted at an exercise price as determined by Aurigene s compensation committee. As of March 31, 2008, there were no stock options outstanding under the Aurigene Management Plan. The plan was closed by a resolution of the shareholders in January 2008.

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16. Employee stock incentive plans (continued)

Stock option activity during the period:

The terms and conditions of the grants made during the six months ended September 30, 2011 under the above plans were as follows:

	Number of instruments	Exercise price	Vesting period	Contractual life
DRL 2002 Plan:				
- Category A				
- Category B	262,520	5.00	1 to 4 years	5 years
DRL 2007 Plan:				
- Category A				
- Category B	56,060	5.00	1 to 4 years	5 years

Aurigene ESOP Plan:

The terms and conditions of the grants made during the six months ended September 30, 2010 under the above plans are as follows:

	Number of instruments	Exercise price	Vesting period	Contractual life
DRL 2002 Plan:				
- Category A				
- Category B	284,070	5.00	1 to 4 years	5 years
DRL 2007 Plan:				
- Category A				
- Category B	58,660	5.00	1 to 4 years	5 years

Aurigene ESOP Plan:

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

	Six months ended September 30,	
	2011	**2010**
Expected volatility	28.92%	34.34%
Exercise price	5.00	5.00
Option life	2.42 Years	2.43 Years
Risk-free interest rate	8.34%	6.04%
Expected dividends	0.70%	0.40%
Grant date share price	1,598.57	1,242.55

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16. Employee stock incentive plans (continued)

The fair values of services received in return for share options granted to employees are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black Scholes model.

For the six months ended September 30, 2011 and 2010, amounts of 153 and 132, respectively, and for the three months ended September 30, 2011 and 2010, amounts of 89 and 66, respectively, have been recorded as total employee share based expense under all employee stock incentive plans. As of September 30, 2011, there was approximately 439 of total unrecognized compensation cost related to unvested stock options. This cost is expected to be recognized over a weighted-average period of 3.18 years.

17. Employee benefit plans

Gratuity benefits

In accordance with applicable Indian laws, the Company provides for gratuity, a defined benefit retirement plan (the Gratuity Plan) covering certain categories of employees. The Gratuity Plan provides a lump sum payment to vested employees at retirement or termination of employment. The amount of payment is based on the respective employee s last drawn salary and the years of employment with the Company. Effective September 1, 1999, the Company established the Dr. Reddy s Laboratories Gratuity Fund (the Gratuity Fund). Liabilities in respect of the Gratuity Plan are determined by an actuarial valuation, based upon which the Company makes contributions to the Gratuity Fund. Trustees administer the contributions made to the Gratuity Fund. Amounts contributed to the Gratuity Fund are invested in specific securities as mandated by law and generally consist of federal and state government bonds and debt instruments of government-owned corporations.

The components of net periodic benefit cost for the six months ended September 30, 2011 and 2010 are as follows:

	Six months ended September 30,	
	2011	**2010**
Service cost	42	32
Interest cost	26	18
Expected return on plan assets	(18)	(16)
Recognized net actuarial (gain)/ loss	6	2
Net amount recognized	**56**	**36**

The components of net periodic benefit cost for the three months ended September 30, 2011 and 2010 are as follows:

	Three months ended September 30,	
	2011	**2010**
Service cost	21	16
Interest cost	13	9
Expected return on plan assets	(9)	(8)
Recognized net actuarial (gain)/ loss	3	1
Net amount recognized	**28**	**18**

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17. Employee benefit plans (continued)

Pension plan

All employees of Industrias Quimicas Falcon de Mexico S.A. de C.V. (Falcon) are entitled to a pension plan in the form of a defined benefit plan. The pension plan provides a payment to vested employees at retirement or termination of employment. This payment is based on the employee s integrated salary and is paid in the form of a monthly pension over a period of 20 years computed based on a predefined formula. Liabilities in respect of the pension plan are determined by an actuarial valuation, based upon which the Company makes contributions to the pension plan fund. This fund is administered by a third party who is provided guidance by a technical committee formed by senior employees of Falcon.

The components of net periodic benefit cost for the six months ended September 30, 2011 and 2010 are as follows:

	Six months ended September 30,	
	2011	**2010**
Service cost	10	8
Interest cost	14	12
Expected return on plan assets	(14)	(14)
Recognized net actuarial (gain)/ loss	4	4
Net amount recognized	**14**	**10**

The components of net periodic benefit cost for the three months ended September 30, 2011 and 2010 are as follows:

	Three months ended September 30,	
	2011	**2010**
Service cost	5	4
Interest cost	7	6
Expected return on plan assets	(7)	(7)
Recognized net actuarial (gain)/ loss	2	2
Net amount recognized	**7**	**5**

Long service benefit recognitions

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

The components of net periodic benefit cost for the six months ended September 30, 2011 and 2010 are as follows:

	Six months ended September 30,	
	2011	**2010**
Service cost	4	4
Interest cost	2	2

Expected return on plan assets		
Recognized net actuarial (gain)/ loss		
Net amount recognized	**6**	**6**

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17. Employee benefit plans (continued)

The components of net periodic benefit cost for the three months ended September 30, 2011 and 2010 are as follows:

	Three months ended September 30,	
	2011	**2010**
Service cost	2	2
Interest cost	1	1
Expected return on plan assets		
Recognized net actuarial (gain)/ loss		
Net amount recognized	**3**	**3**

Termination benefits in India

On June 20, 2011, the Company announced a voluntary retirement scheme (i.e., a termination benefit) applicable to certain eligible employees of Dr. Reddy s Laboratories Limited. As per the scheme, employees whose voluntary retirement is accepted by the Company will be paid an amount computed based on the methodology described in the scheme, with the maximum amount restricted to 0.8 per employee. As at June 30, 2011, based on the applications received from employees, the Company had estimated and recognized an amount of 136 as a termination benefit in its unaudited condensed consolidated interim financial statements. During the three months ended September 30, 2011, the Company concluded the voluntary retirement scheme and, in accordance with its human resources strategy and projected workforce requirements, the Company rejected certain retirement applications of its employees. Accordingly, an amount of 42 has been recognized as termination benefits for the six months ended September 30, 2011 and the Company has accounted for such revision as a change in accounting estimates.

Severance payments of German subsidiaries

In Germany, many statutory health insurance funds (SHI funds) and other health insurance providers have been announcing new competitive bidding tenders which continue to cause pressure on the Company s existing level of revenues due to a steep decrease in product prices. The Company believes that this is leading to a business model of high volumes and low margins in the German generic pharmaceutical market.

On account of these developments and other significant adverse events in the German generic pharmaceutical market, during the year ended March 31, 2010 the Company implemented workforce reductions and restructuring of the Company s German subsidiaries, betapharm Arzneimittel GmbH (betapharm) and Reddy Holding GmbH, to achieve a more sustainable workforce structure in light of the current situation within the German generic pharmaceuticals industry. Accordingly, during the year ended March 31, 2010, the management and the works councils (i.e., organizations representing workers) of betapharm and Reddy Holding GmbH entered into reconciliation of interest agreements that set out the overall termination benefits payable to identified employees. Accordingly, an amount of 885 (Euro 13.2) was recorded as termination benefits included as part of selling, general and administrative expenses in the consolidated income statement for the year ended March 31, 2010. A total of 435 (Euro 6.6) of such severance payments were recorded during the six months ended September 30, 2010. There were no restructuring activities during the six months ended September 30, 2011.

18. Income taxes

Income tax expense is recognized based on the Company s best estimate of the average annual income tax rate expected for the full fiscal year applied to the pre-tax income of the interim period. The average annual income tax rate is determined for each taxing jurisdiction and applied individually to the interim period pre-tax income of each jurisdiction. The difference between the estimated average annual income tax rate and the enacted tax rate is accounted for by a number of factors, including the effect of differences between Indian and foreign tax rates,

expenses that are not deductible for tax purposes, income exempted from income taxes, effects of changes in tax laws and rates.

The Company s consolidated weighted average tax rate for the six months ended September 30, 2011 and 2010 was 11.61% and 12.10%, respectively. Income tax expense was 750 for the six months ended September 30, 2011 as compared to income tax expense of 684 for the six months ended September 30, 2010. The decrease in the consolidated weighted average tax rate during the six months ended September 30, 2011 was primarily due to deductible temporary differences arising from unrealized inter-company profits on inventory held by the Company at the end of the reporting period in higher tax jurisdictions. As per the requirements of IFRS, the Company is required to create a deferred tax asset in respect of unrealized inter-company profit arising on inventory held by the Company at the end of the reporting period by applying the tax rate of the jurisdiction in which the inventory is held.

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18. Income taxes (continued)

The decrease in the consolidated weighted average tax rate during the six months ended September 30, 2011 was partially offset by a tax rate increase due to the expiration of a tax holiday period of 5 years under the Indian income tax act in our finished dosage unit situated in Baddi, Himachal Pradesh, India.

Income tax expense was 630 for the three months ended September 30, 2011, as compared to income tax expense of 327 for the three months ended September 30, 2010. Such expense resulted in an effective tax rate of 17% and 10% for the three months ended September 30, 2011 and September 30, 2010, respectively. The increase in the effective tax rate for the three months ended September 30, 2011 as compared to the three months ended September 30, 2010 was primarily due to the expiration of a tax holiday under Indian tax laws affecting one of the Company s facilities in India, and also due to an increase in the proportion of the Company s income attributable to higher tax jurisdictions.

Total tax benefit recognized directly in the equity amounted to 650 for the six months ended September 30, 2011 (as compared to a tax benefit amounting to 47 for the six months ended September 30, 2010). Such tax benefit was primarily due to foreign exchange loss on cash flow hedges for such period.

There are certain income-tax related legal proceedings that are pending against the Company that have arisen in the ordinary course of business. Potential liabilities, if any, have been adequately provided for, and the Company does not currently estimate any material incremental tax liability in respect of these matters.

During the year ended March 31, 2010, the German tax authorities concluded their preliminary tax audits for betapharm, covering the fiscal years 2001 to 2004, and had objected to certain tax positions taken in those years income tax returns filed by betapharm. Management s best estimate of the additional tax liability that could arise on conclusion of the tax audits, was 302 (EUR 5). Accordingly, the Company had recorded such amount as additional current tax expense in the income statement for the year ended March 31, 2010. Included as part of the Company s acquisition of betapharm during the year ended March 31, 2006 were certain pre-existing income tax liabilities pertaining to betapharm for the fiscal periods prior to the date of the closing of the acquisition (in March 2006). Accordingly, the terms of the Sale and Purchase Agreement provided that a certain portion of the purchase consideration amounting to 324 (EUR 6) would be set aside in an escrow account, to be set off against certain indemnity claims by the Company in respect of legal and tax matters that may arise covering such pre-acquisition periods (the indemnity right The right to make tax related indemnity claims would lapse and be time barred at the end of the seven year anniversary of the closing of the acquisition (in March 2013). Upon receipt of such preliminary tax demands, the management of betapharm initiated the process of exercising such indemnity rights against the sellers of betapharm and had concluded that, as of March 31, 2010, the Company s recovery of the full tax amounts demanded by the German tax authorities was virtually certain. Accordingly, a separate asset amounting to 302 (EUR 5) representing such indemnity rights against the sellers was recorded as part of other assets in the statement of financial position, with a corresponding credit to the current tax expense for the year ended March 31, 2010

During the six months ended September 30, 2011, the aforesaid tax audits were completed and the Company is awaiting the final tax demand notice. The Company does not expect the amount of tax demand to be materially different from the 302 (EUR 5) amount recognized in the statement of financial position.

19. Acquisition of Non-controlling Interests

Dr. Reddy s Laboratories (Proprietary) Limited

During the three months ended June 30, 2010, the Company acquired the non-controlling interest of 40% in Dr. Reddy s Laboratories (Proprietary) Limited from Calshelf Investments 214 (Proprietary) Limited, as a result of which it became the Company s wholly-owned subsidiary. The total purchase consideration was 525 (or, in South African Rand, ZAR 81).

Acquisition of the non-controlling interest was recorded as a treasury transaction as part of the Company s unaudited condensed consolidated interim statement of changes in equity, as it represented changes in ownership interest without the loss of control by the Company. The difference between the carrying value of such non-controlling interest and the consideration paid by the Company was recognized as a reduction from retained earnings and attributed to the

shareholders of the Company.

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20. Related parties

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

Green Park Hotel and Resorts Limited (formerly known as Diana Hotels Limited) for hotel services;

A.R. Life Sciences Private Limited for availing processing services of raw materials and intermediates;

Dr. Reddy s Holdings Limited;

Dr. Reddy s Foundation for Human and Social Development towards contributions for social development;

Institute of Life Science towards contributions for social development;

K.K. Enterprises for availing packaging services for formulation products;

SR Enterprises for transportation services; and

Dr. Reddy s Laboratories Gratuity Fund.

These are enterprises over which key management personnel have control or significant influence (significant interest entities). Key management personnel consists of the Company s Directors and Management council members. Additionally, the Company has also provided or taken loans and advances from significant interest entities.

The Company has also entered into transactions with its joint venture Kunshan Rotam Reddy Pharmaceuticals Co. Limited (Reddy Kunshan). These transactions are in the nature of purchase of active pharmaceutical ingredients by the Company from Reddy Kunshan.

The Company has also entered into cancellable operating lease transactions with key management personnel and their relatives.

The Company contributes to the Dr. Reddy s Laboratories Gratuity Fund (the Gratuity Fund), which maintains the plan assets of the Company s Gratuity Plan for the benefit of its employees. During the six months ended September 30, 2011 and 2010, the Company paid 94 and 3, respectively, to the Gratuity Fund. See Note 17 for further information on transactions between the Company and the Gratuity Fund.

The following is a summary of significant related party transactions:

	Six months ended September 30,		Three months ended September 30,	
	2011	2010	2011	2010
Purchases from significant interest entities	407	140	195	80
Sales to significant interest entities	219	98	80	71
Contribution to a significant interest entity towards social development	70	52	36	26
Lease rental paid under cancellable operating leases to key management personnel and their relatives	15	14	7	7
Hotel expenses paid	8	11	3	4

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20. Related parties (continued)

The following table describes the components of compensation paid to key management personnel:

	Six months ended September 30,		Three months ended September 30,	
Particulars	**2011**	**2010**	**2011**	**2010**
Salaries	114	106	40	42
Contribution to defined contribution plans	6	4	3	2
Commission*	151	168	75	82
Other perquisites		1		
Share-based payments	30	29	17	16
Total	**301**	**308**	**135**	**142**

* Accrued based on profit as of the applicable date in accordance with the terms of employment.

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

The Company had the following amounts due from related parties:

	As at	
	September 30, 2011	**March 31, 2011**
Significant interest entities	102	114
Key management personnel	5	5

As at March 31, 2010, the Company had advanced 1,447 for the purchase of land from a significant interest entity, which was disclosed as part of capital work-in-progress and included in the property, plant and equipment in the Company s audited Consolidated Financial Statements for the year ended March 31, 2010. The acquisition of such land was expected to be consummated through the acquisition of shares of a special purpose entity that was formed through a court approved scheme of arrangement during the year ended March 31, 2010.

During the six months ended September 30, 2010, the Company completed the acquisition of shares of this special purpose entity and has therefore obtained control over the land. Consequently, an equal amount of 1,447 has been classified out of capital work-in-progress and included as cost of land acquired as at June 30, 2010.

The Company had the following amounts due to related parties:

	As at	
	September 30, 2011	**March 31, 2011**
Significant interest entities	45	81
Key management personnel		1

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21. Disclosure of Expense by Nature

The below tables discloses the details of the expense incurred by their nature for the six months ended September 30, 2011 and 2010, respectively.

	Six months ended September 30, 2011			
Particulars	**Cost of revenues**	**Selling, general and administrative expenses**	**Research and development expenses**	**Total**
Employee benefits*	2,910	4,558	628	8,096
Depreciation and amortization	1,271	1,044	187	2,502

	Six months ended September 30, 2010			
Particulars	**Cost of revenues**	**Selling, general and administrative expenses**	**Research and development expenses**	**Total**
Employee benefits*	2,454	3,776	533	6,763
Depreciation and amortization	1,047	821	157	2,025

The below tables disclose the details of the expense incurred by their nature for the three months ended September 30, 2011 and 2010, respectively.

	Three months ended September 30, 2011			
Particulars	**Cost of revenues**	**Selling, general and administrative expenses**	**Research and development expenses**	**Total**
Employee benefits*	1,408	2,291	321	4,020
Depreciation and amortization	656	518	95	1,269

	Three months ended September 30, 2010			
Particulars	**Cost of revenues**	**Selling, general and administrative expenses**	**Research and development expenses**	**Total**
Employee benefits*	1,280	1,994	276	3,550
Depreciation and amortization	542	428	79	1,049

* Employee benefits include all forms of consideration given by an entity in exchange for services rendered by employees.

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22. Change in currency translation rate in Venezuela

The Company s Venezuela operations are primarily restricted to the import by Dr. Reddy s Venezuela, C.A. of pharmaceutical products from the parent company or other subsidiaries of the Company for the purpose of supply in the local market, Venezuela. The operations are conducted as an extension of the parent company and accordingly, the functional currency of that operation has been determined as the Indian rupee since its formation. In the recent past, the inflationary trends in Venezuela have been volatile. On January 8, 2010, the Venezuelan government announced the devaluation of the Bolivar Fuerte (VEF), the currency of Venezuela. The official exchange rate of 2.15 VEF per U.S. dollar, in effect since 2005, was replaced effective January 11, 2010, with a dual-rate regime. The two-tiered official exchange rates were (1) the essentials rate at VEF 2.60 per U.S. dollar for items designated by the Venezuelan government as essential items (such as food, medicine, and heavy machinery; remittances to relatives settled abroad; and public sector imports, including school supplies, science, and technology needs) and (2) the non-essentials rate at VEF 4.30 per U.S. dollar applied to other items in the economy. Therefore, effective January 1, 2010, the country was hyperinflationary (a label generally considered to apply if the cumulative three-year inflation exceeds 100%). The Company s products were exchanged at the essentials rate and, accordingly, the Company used VEF 2.60 per U.S. dollar in recording its VEF denominated transactions for the applicable periods, and the resulting exchange gains/losses were recorded through profit or loss.

On December 30, 2010, the Foreign Exchange Administration Commission of Venezuela (commonly referred to as the CADIVI) enacted a decree (exchange agreement No.14) to further devalue the exchange rate from 2.60 VEF per U.S. dollar to 4.30 VEF per U.S. dollar effective January 1, 2011, thereby repealing the essential rate. Furthermore, on January 13, 2011, the CADIVI issued another decree to interpret the transitional requirements for the use of the new official exchange rate and stated that if the following conditions were satisfied, the use of the pre-devaluation rate of 2.60 VEF per U.S. dollar would be permissible:

- For fund repatriation to the extent the CADIVI has issued approvals in the form of approvals of Autorización de Liquidación de Divisas (ALD) and which have been sent to and received by the Banco Central de Venezuela by December 31, 2010; and
- For foreign currency acquisition to the extent the CADIVI had issued an Authorization of Foreign Currency Acquisition (AAD) by December 31, 2010 and the approval relates to imports for the health and food sectors or certain other specified purposes.

The Company has not applied the requirements of IAS 29, *Financial reporting in hyperinflationary economies,* as the functional currency of the Venezuelan operation is the Indian Rupee. As at September 30, 2011, the Company has repatriated all monetary items for which it obtained the approval to use the preference rate in its Venezuelan operations, except for approximately U.S.$1. The Company secured sufficient approvals for the use of the essential rate for more than U.S.$1 of VEF denominated monetary items and, accordingly, the Company s remaining monetary items of approximately U.S.$1 has been translated into the functional currency at the preferential rate of 2.60 VEF per U.S. dollar.

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23. Bonus Debentures

On March 31, 2010, the Company s Board of Directors approved a scheme for the issuance of bonus debentures (in-kind , i.e., for no cash consideration) to its shareholders to be effected by way of capitalization of its retained earnings. The scheme was subject to the successful receipt of necessary approvals of the Company s shareholders, the High Court of Andhra Pradesh, India and other identified regulatory authorities as mentioned in the scheme. All necessary approvals to effectuate the scheme, including that of the High Court, were received during the year ended March 31, 2011. Accordingly, on March 24, 2011, the Company issued these debentures to the shareholders of the Company.

The following is a summary of the key terms of the issuance:

Particulars	No. of instruments issued	Face value	Currency	Interest Rate	Maturity	Aggregate Face Amount	Redemption price
Unsecured, non-convertible, redeemable debentures	1,015,516,392	5 each	(Indian rupee)	9.25% per annum	36 months	5,078	5 each (plus interest)

The following is a summary of certain additional terms of the issuance:

Fully paid up bonus debentures carrying a face value of 5 each were issued to the Company s shareholders in the ratio of 6 bonus debentures for each equity share held by such shareholders on March 18, 2011.

The bonus debentures are unsecured and are not convertible into equity shares of the Company.

The Company delivered cash in the aggregate value of the bonus debentures into an escrow account of a merchant banker in India appointed by the Company s Board of Directors. The merchant banker received such amount for and on behalf of and in trust for the shareholders who are entitled to receive bonus debentures. Upon receipt of such amount, the merchant banker paid the amount to the Company, for and on behalf of the shareholders as consideration for the allotment of debentures to them.

These bonus debentures have a maturity of 36 months, at which time the Company must redeem them for cash in an amount equal to the face value of 5 each, plus any unpaid interest, if any.

These bonus debentures carry an interest rate of 9.25% per annum. The interest on the debentures shall be paid at the end of 12, 24 and 36 months from the date of issuance.

These bonus debentures are listed on stock exchanges in India so as to provide liquidity for the holders.

Issuance of these bonus debentures will be treated as a deemed dividend under section 2 (22) (b) of the Indian Income Tax Act, 1961 and accordingly, the Company will be required to pay a dividend distribution tax.

Under Indian Corporate Law and as per the terms of the approved bonus debenture scheme, the Company created a statutory reserve (the Debenture Redemption Reserve) in which it is required to deposit a portion of its profits made during each year prior to the maturity date of the bonus debentures until the aggregate amount retained in such reserve equals 50% of the face value of the debentures then issued and outstanding. The funds in the Debenture Redemption Reserve shall be used only to redeem the debentures for so long as

they are issued and outstanding.

The Company has accounted for the issuance of such debentures as a pro-rata distribution to the owners acting in the capacity as owners on a collective basis. Accordingly, the Company has measured the value of such financial instrument at fair value on the date of issuance which corresponds to the value of the bonus debentures issued on March 24, 2011. The Company has disclosed the issuances as a reduction from retained earnings in the consolidated statement of changes in equity with a corresponding credit to loans and borrowings for the value of the financial liability recognized. Furthermore, in relation to the above mentioned scheme, the Company incurred costs of 51 in directly attributable transaction costs payable to financial advisors. This amount was accounted for as a reduction from debenture liability on the date of issuance of the bonus debentures and is being amortized over a period of three years using the effective interest rate method. The associated cash flows for the delivery of cash to the merchant banker and the subsequent receipt of the same for and on behalf of the shareholders upon issuance of the bonus debentures was disclosed separately in the unaudited consolidated statement of cash flows as part of financing activities.

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23. Bonus Debentures (continued)

Further, the dividend distribution tax paid by the Company on behalf of the owners in the amount of 843 has been recorded as part of a reduction from retained earnings in the audited consolidated statement of changes in equity for the year ended March 31, 2011. The Company transferred 211 and 19 from the profits earned during the three months ended June 30, 2011 and the year ended March 31, 2011, respectively, into the Debenture Redemption Reserve and recorded the transfer through the statement of comprehensive income and statement of changes in equity.

The regulatory framework in India governing issuance of ADRs by an Indian company does not permit the issuance of ADRs with any debt instrument (including non-convertible rupee denominated debentures) as the underlying security. Therefore, the depositary of the Company s ADRs (the Depositary) cannot issue depositary receipts (such as ADRs) with respect to the bonus debentures issued under the Company s bonus debenture scheme. As a result, in accordance with the deposit agreement between the Company and the Depositary (the Deposit Agreement), the bonus debentures issuable in respect of the shares underlying the Company s ADRs were distributed to the Depositary, who sold such bonus debentures on April 8, 2011. The Depository converted the net proceeds from such sale into U.S. dollars and, on June 23, 2011, distributed such U.S. dollars, less any applicable taxes, fees and expenses incurred and/or provided for under the Deposit Agreement, to the registered holders of ADRs entitled thereto in the same manner as it would ordinarily distribute cash dividends under the Deposit Agreement.

24. Termination of Agreement with JB Chemicals

On July 22, 2011, the Company entered into an agreement with JB Chemicals and Pharmaceuticals Limited (JB Chemicals) to acquire intellectual property rights (including trademarks, patents and know-how) to certain prescription portfolio brands in Russia and other countries of the former Soviet Union for a total consideration of U.S.$34.85. This transaction involved the acquisition of, among other things, approximately 20 brands in Russia. The Company and JB Chemicals also entered into a manufacturing and supply agreement, pursuant to which JB Chemicals agreed to manufacture and supply to the Company the products associated with the acquired brands. During the three months ended September 30, 2011, the Company and JB Chemicals mutually terminated both of these agreements, in the overall business interest of both companies.

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25. Contingencies

Litigations, etc.

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

Although there can be no assurance regarding the outcome of any of the legal proceedings or investigations referred to in this Note 25 to the unaudited condensed consolidated interim financial statements, the Company does not expect them to have a materially adverse effect on its financial position. However, if one or more of such proceedings were to result in judgments against the Company, such judgments could be material to its results of operations in a given period.

Product and patent related matters

Norfloxacin litigation

The Company manufactures and distributes Norfloxacin, a formulations product. Under the Drugs Prices Control Order (the DPCO), the Government of India has the authority to designate a pharmaceutical product as a specified product and fix the maximum selling price for such product. In 1995, the Government of India issued a notification and designated Norfloxacin as a specified product and fixed the maximum selling price. In 1996, the Company filed a statutory Form III before the Government of India for the upward revision of the maximum selling price and a legal suit in the Andhra Pradesh High Court (the High Court) challenging the validity of the designation on the grounds that the applicable rules of the DPCO were not complied with while fixing the maximum selling price. The High Court had previously granted an interim order in favor of the Company; however it subsequently dismissed the case in April 2004. The Company filed a review petition in the High Court in April 2004 which was also dismissed by the High Court in October 2004. Subsequently, the Company appealed to the Supreme Court of India, New Delhi (the Supreme Court) by filing a Special Leave Petition, which is currently pending.

During the year ended March 31, 2006, the Company received a notice from the Government of India demanding the recovery of the price charged by the Company for sales of Norfloxacin in excess of the maximum selling price fixed by the Government of India, amounting to 285 including interest thereon. The Company filed a writ petition in the High Court challenging this demand order. The High Court admitted the writ petition and granted an interim order, directing the Company to deposit 50% of the principal amount claimed by the Government of India, which amounted to 77. The Company deposited this amount with the Government of India in November 2005 and is awaiting the outcome of its appeal with the Supreme Court. In February 2008, the High Court directed the Company to deposit an additional amount of 30, which was deposited by the Company in March 2008. Additionally in November 2010, the High Court allowed the Company s application to include additional legal grounds that the Company believes will strengthen its defense against the demand. The Company has fully provided for the potential liability related to the principal amount demanded by the Government of India. In the event the Company is unsuccessful in its litigation in the Supreme Court, it will be required to remit the sale proceeds in excess of the maximum selling price to the Government of India including penalties or interest, if any, which amounts are not readily ascertainable.

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25. Contingencies (continued)

Product and patent related matters (continued)

Fexofenadine United States litigation

In April 2006, the Company launched its fexofenadine hydrochloride 30 mg, 60 mg and 180 mg tablet products, which are generic versions of Sanofi-Aventis (Aventis) Allegra® tablets. The Company is presently defending patent infringement actions brought by Aventis and Albany Molecular Research (AMR) in the United States District Court for the District of New Jersey. There are three formulation patents, three methods of use patents, and three synthetic process patents which are at issue in the litigation. The Company has obtained summary judgment with respect to two of the formulation patents. Teva Pharmaceuticals Industries Limited (Teva) and Barr Pharmaceuticals, Inc. (Barr) were defending a similar action in the same court. In September 2005, pursuant to an agreement with Barr, Teva launched its fexofenadine hydrochloride 30 mg, 60 mg and 180 mg tablet products, which are AB-rated (bioequivalent) to Aventis Allegra® tablets. Aventis brought patent infringement actions against Teva and its active pharmaceutical ingredients (API) supplier in the United States District Court for the District of New Jersey. There were three formulation patents, three use patents, and two API patents at issue in the litigation. Teva obtained summary judgment in respect of each of the formulation patents. On January 27, 2006, the District Court denied Aventis motion for a preliminary injunction against Teva and its API supplier on the three use patents, finding those patents likely to be invalid, and one of the API patents, finding that patent likely to be not infringed. The issues presented during Teva s hearing are likely to be substantially similar to those which will be presented with respect to the Company s fexofenadine hydrochloride tablet products. Subsequent to the preliminary injunction hearing, Aventis sued Teva and Barr for infringement of a new patent claiming polymorphic forms of fexofenadine.

The Company utilizes an internally developed polymorph and has not been sued for infringement of the new patent. On November 18, 2008, Teva and Barr announced settlement of their litigation with Aventis. On September 9, 2009, AMR added a new process patent to the litigation. This new process patent is related to the manufacturing of the active ingredient contained in the group of tablets being sold under the Allegra® franchise (which include Allegra®, Allegra-D 12® and Allegra-D 24®). Subsequent to the receipt of the U.S. FDA approval in March 2010 for the Company s ANDA relating to fexofenadine-pseudoephedrine higher strength (the generic version of Allegra-D 24®), AMR and Aventis sought a preliminary injunction against the Company in the District Court of New Jersey to withhold the launch of the Company s product.

Subsequent to the receipt of the U.S. FDA approval in March 2010 for the Company s ANDA relating to fexofenadine-pseudoephedrine higher strength (the generic version of Allegra-D 24®), AMR and Aventis sought a preliminary injunction against the Company in the District Court of New Jersey to withhold the launch of the Company s generic version of Allegra D24® product in the U.S. market, arguing that they were likely to prevail on their claim that the Company infringed AMR s U.S. Patent No. 7,390,906. In June 2010, the District Court of New Jersey issued the requested preliminarily injunction against the Company. Sanofi-Aventis and AMR posted security of U.S.$40 with the District Court of New Jersey towards the possibility that the injunction had been wrongfully granted. The security posted shall remain in place until further order of the Court. Pending the final outcome of the case, the Company has not recorded any asset in the consolidated financial statements in connection with this product in the United States.

On January 28, 2011, the District Court of New Jersey ruled that, based on Sanofi-Aventis and AMR s likely inability to prove infringement by the Company s products, the preliminary injunction issued in June 2010 should be dissolved. Additionally, the court adopted the Company s proposed claim construction for the 7,390,906 patent. Aventis and AMR appealed the January 28, 2011 decisions of the District Court of New Jersey to the Federal Circuit of the United States Court of Appeals. The Company subsequently launched sales of its generic version of Allegra-D 24®. Although the preliminary injunction was removed, all such sales are at risk pending final resolution of the litigation. Additionally, on April 27, 2011 a trial was held regarding two of the listed formulation patents 6,039,974 and 5,738,872 (on Allegra-D and Allegra-D12 products) that were asserted against the Company. The Company presented

non-infringement and invalidity arguments for both and is awaiting a decision on this trial. In September 2011, Aventis withdrew its complaints regarding 7 of the 9 patents asserted against the Company only two of the patents (numbers 750,703 and 7,390,906) remain in dispute. The Company expects the Federal Circuit of the U.S. Court of Appeals to render a decision regarding the 7,390,906 patent claim construction by June 2012.

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25. Contingencies (continued)

Product and patent related matters (continued)

If Aventis and AMR are ultimately successful in their allegations of patent infringement, the Company could be required to pay damages related to fexofenadine hydrochloride and fexofenadine-pseudoephedrine tablet sales made by the Company, and could also be prohibited from selling these products in the future.

Oxycodon, Germany litigation

Since 2007, the Company has sold Oxycodon beta (generic oxycontin) in Germany pursuant to a license from and supply arrangement with Acino Holding Ltd. (formerly Cimex) (Acino). Since April 2007, there had been ongoing patent litigation among Mundipharma International (Mundipharma), the innovator of generic oxycontin, and Acino and certain of its licensees of generic oxycontin. In January 2011, Mundipharma initiated a separate (secondary) legal action against the Company. The Company also signed a cost sharing agreement under which Acino agreed to share a portion of the losses resulting from any Mundipharma damage claim. In August 2011, Acino and Mundipharma entered into a settlement agreement for all patent litigation with respect to Acino s oxycodone product and Mundipharma s patents. As a result of this settlement agreement, all legal proceedings concerning Acino s oxycodone product in Europe have been discontinued by all parties involved, and the Company is allowed to continue selling the oxycodone product in Germany.

Olanzapine, Canada litigation

The Company supplies certain generic products, including olanzapine tablets (the generic version of Eli Lilly s Zyprexa® tablets), to Pharmascience, Inc. for sale in Canada. Several generic pharmaceutical manufacturers have challenged the validity of the Zyprexa® patents in Canada. In June 2007, the Canadian Federal Court held that the invalidity allegation of one such challenger, Novopharm Ltd., was justified and denied Eli Lilly s request for an order prohibiting sale of the product. Eli Lilly responded by suing Novopharm for patent infringement. Eli Lilly also sued Pharmascience for patent infringement, but that litigation was dismissed after the parties agreed to be bound by the final outcome in the Novopharm case. As reflected in Eli Lilly s regulatory filings, the settlement allows Pharmascience to market olanzapine tablets subject to a contingent damages obligation should Eli Lilly be successful in its litigation against Novopharm. The Company s agreement with Pharmascience includes a provision under which the Company shares a portion of all cost and expense incurred as a result of settling lawsuits or paying damages that arise as a consequence of selling the products.

For the preceding reasons, the Company is exposed to potential damages in an amount that may equal the Company s profit share derived from sale of the product. During October 2009, the Canadian Federal Court decided, in the Novopharm case, that Eli Lilly s patent for Zyprexa is invalid. This decision was, however, reversed in part by the Federal Court of Appeal on July 21, 2010 and remanded for further consideration. Pending the final decision, the Company continues to sell the product to Pharmascience and remains exposed to potential damages in an amount that may equal the Company s profit share derived from sale of the product.

Ceragenix Bankruptcy Litigation

In November 2007, the Company entered into a Distribution and Supply Agreement with Ceragenix Pharmaceuticals, Inc. and Ceragenix Corporation (collectively, Ceragenix.). Under this agreement, the Company made up-front and milestone payments of U.S.$5 and commenced distribution of the dermatological product EpiCeram, a skin barrier emulsion device, in the United States and its territories. As of June 30, 2011, the Company carried a balance intangible value of U.S.$2.1 relating to these payments.

In June 2010, Ceragenix (both entities) filed voluntary petitions under Chapter 11 of the U.S. Bankruptcy Code. On June 24, 2011, the United States Bankruptcy Court for the District of Colorado permitted Ceragenix to sell the patent rights, certain business assets and intellectual property relating to EpiCeram® to PuraCap Pharmaceutical LLC and to terminate the Company s rights under the Distribution and Supply Agreement. However, the court ordered Ceragenix to pay U.S.$2.75 to the Company out of the sales proceeds of such assets and intellectual property, as compensation for the termination of the Distribution and Supply Agreement.

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25. Contingencies (continued)

Environmental matter

The Indian Council for Environmental Legal Action filed a writ in 1989 under Article 32 of the Constitution of India against the Union of India and others in the Supreme Court of India for the safety of people living in the Patancheru and Bollarum areas of Medak district of Andhra Pradesh. The Company has been named in the list of polluting industries. In 1996, the Andhra Pradesh District Judge proposed that the polluting industries compensate farmers in the Patancheru, Bollarum and Jeedimetla areas for discharging effluents which damaged the farmers agricultural land. The compensation was fixed at 1.30 per acre for dry land and 1.70 per acre for wet land. Accordingly, the Company has paid a total compensation of 3. The matter is pending in the courts and the Company believes that the possibility of additional liability is remote. The Company would not be able to recover the compensation paid, even if the decision of the court is in favor of the Company.

Indirect taxes related matter

During the year ended March 31, 2003, the Central Excise Authorities of India (the Authorities) issued a demand notice to a vendor of the Company regarding the assessable value of products supplied by this vendor to the Company. The Company has been named as a co-defendant in this demand notice. The Authorities demanded payment of 176 from the vendor, including penalties of 90. Through the same notice, the Authorities issued a penalty claim of 70 against the Company. During the year ended March 31, 2005, the Authorities issued an additional notice to this vendor demanding 226 from the vendor, including a penalty of 51. Through the same notice, the Authorities issued a penalty claim of 7 against the Company. Furthermore, during the year ended March 31, 2006, the Authorities issued an additional notice to this vendor demanding 34. The Company has filed appeals against these notices. In August and September 2006, the Company attended the hearings conducted by the Customs, Excise and Service Tax Appellate Tribunal (the CESTAT) on this matter. In October 2006, the CESTAT passed an order in favor of the Company setting aside all of the above demand notices. In July 2007, the Authorities appealed against CESTAT s order in the Supreme Court of India, New Delhi. The matter is pending in the Supreme Court of India, New Delhi.

Regulatory matters

In November 2007, the Attorneys General of the State of Florida and the Commonwealth of Virginia each issued subpoenas to the Company s U.S. subsidiary, Dr. Reddy s Laboratories, Inc. (DRLI). In March 2008, the Attorney General of the State of Michigan issued a Civil Investigative Demand (CID) to DRLI. These subpoenas and the CID generally required the production of documents and information relating to the development, sales and marketing of the products ranitidine, fluoxetine and buspirone, all of which were sold by Par Pharmaceuticals Inc. (Par) pursuant to an agreement between Par and DRLI. On July 8, 2011, the Company was notified that the Attorneys General intended to conclude their respective investigations of the Company, and that the Company would be voluntarily dismissed without prejudice from the legal action.

Other

Additionally, the Company and its affiliates are involved in other disputes, lawsuits, claims, governmental and/or regulatory inspections, inquiries, investigations and proceedings, including patent and commercial matters that arise from time to time in the ordinary course of business. The Company does not believe that there are any such pending matters that will have any material adverse effect on its financial position, results of operations or cash flows in any given accounting period.

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26. Letter from the U.S. Food and Drug Administration

The Company s Mexico facility produces intermediates and active pharmaceutical ingredients (API) and steroids. During the month of November 2010, the U.S. FDA inspected the Company s Mexico facility and issued audit observations relating to process for manufacture of API and steroids, to which the Company responded by agreeing to implement certain corrective actions. Subsequently, on June 3, 2011, the Company received a warning letter from the U.S. FDA seeking further clarifications and corrective actions on some of the prior audit observations to which the Company had previously responded. Thereafter, on June 28, 2011, the U.S. FDA posted an import alert, or Detention without Physical Examination (DWPE), on its website for certain specified products manufactured at the Mexico facility. Further details of the warning letter and the DWPE alert are available on the U.S. FDA website.

As a consequence of the DWPE alert, the Company s Mexico facility is unable to export some API and steroids to U.S. customers until such time as the concerns raised by the U.S. FDA in their warning letter is addressed to their satisfaction and the DWPE alert is lifted. The Company is working collaboratively with the U.S. FDA to resolve the matters contained in the warning letter.

The impact to the Company s revenues for the year ending March 31, 2012 from API and steroid sales to U.S. customers affected by this DWPE, and to the Company s generic products which include API impacted by this DWPE, is not expected to be material to the Company s business as a whole even if the DWPE remained in effect throughout the year ending March 31, 2012. Further, the Company believes that the DWPE alert is of a temporary nature and that it is not expected to have a material long term effect on the Company s Mexico operations. Nonetheless, the Company cannot be assured that satisfying the U.S. FDA s concerns will not take longer than currently anticipated or that the U.S. FDA will not request additional corrective actions that would result in the DWPE remaining in effect longer than currently anticipated.

27. Joint Venture arrangement with Fuji Film Corporation

On July 28, 2011 the Company signed a Memorandum of Understanding with FUJIFILM Corporation to enter into an exclusive partnership in the generic drugs business for the Japanese market and to establish a joint venture in Japan. A definitive agreement is expected to be signed during the year ending March 31, 2012.

28. Subsequent events

Early retirement plan in Mexico

On October 1, 2011, Industrias Quimicas Falcon de Mexico S.A. de C.V. (Falcon), the Company s subsidiary in Mexico, announced an early retirement plan for its employees. The plan is effective from October 1, 2011 to December 31, 2011. As per the plan, all employees who have attained the age of 45 or completed ten years of service with the Company are eligible for the plan. All eligible employees whose application is accepted by the Company will be paid a retirement benefit in accordance with the terms of the plan. The Company has received applications from the employees and has estimated that the impact of the plan will not be material to the operations when the Company concludes the plan.

Long term facility draw-down

On October 20, 2011, the Company, through its Swiss Subsidiary, drew down an amount of 10,775 (U.S.$220) under its loan agreement dated September 28, 2011 with Citigroup Global Markets Asia Limited and the other Swiss Subsidiary Lenders (as described in Note 11 above under the heading New long-term loan).

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ITEM 2. OPERATING AND FINANCIAL REVIEW, TREND INFORMATION

The following discussion and analysis should be read in conjunction with the audited consolidated financial statements, the related cash flow statements and notes, and the Operating and Financial Review and Prospects included in our Annual Report on Form 20-F for the fiscal year ended March 31, 2011, all of which is on file with the SEC (collectively, our Form 20-F) and the unaudited condensed consolidated interim financial statements contained in this report on Form 6-K and the related statement of cash flow and notes (collectively, the Financial Statements).

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

Section A: Three months ended September 30, 2011 compared to the three months ended September 30, 2010

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

	Three months ended September 30, 2011				Three months ended September 30, 2010			
	Revenues	Revenues (% of total)	Gross profit	Gross profit (% of revenues)	Revenues	Revenues (% of total)	Gross profit	Gross profit (% of revenues)
	(in millions)				(in millions)			
Global Generics	16,136	71%	10,200	63%	13,667	73%	8,781	64%
Pharmaceutical Services and Active Ingredients	5,933	26%	1,690	28%	4,617	25%	1,036	22%
Proprietary Products	264	1%	215	81%	132	1%	90	68%
Others	345	2%	100	29%	288	1%	79	27%
Total	**22,678**	**100%**	**12,205**	**54%**	**18,704**	**100%**	**9,986**	**53%**

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

	Percentage of Sales Three months ended September 30,		
	2011	2010	Percentage Increase/(Decrease)
Revenues	100%	100%	21%
Gross profit	**54%**	**53%**	**22%**
Selling, general and administrative expenses	32%	31%	26%
Research and development expenses	6%	7%	15%
Other (income)/expense, net	(1)%	(1)%	(1)%
Results from operating activities	**17%**	**17%**	**16%**
Finance (income)/expense, net	0%	0%	43%

Profit before income taxes	**16%**	**17%**	**16%**
Income tax (expense)/benefit, net	(3)%	(2)%	93%
Profit for the period	**14%**	**15%**	**7%**

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Revenues

Our overall consolidated revenues were 22,678 million for the three months ended September 30, 2011, an increase of 21% as compared to 18,704 million for the three months ended September 30, 2010.

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

	2011		2010	
	Revenues	Revenues (% of total)	Revenues	Revenues (% of total)
	(in millions)			
North America	7,777	*34%*	5,464	*29%*
Europe	4,536	*20%*	4,102	*22%*
Russia and other countries of the former Soviet Union	3,380	*15%*	2,751	*15%*
India	4,210	*19%*	3,813	*20%*
Others	2,775	*12%*	2,574	*14%*
Total	**22,678**	***100%***	**18,704**	***100%***

During the three months ended September 30, 2011, the average Indian rupee/U.S.$ exchange rate appreciated by 1% and the average Indian rupee/Euro exchange rate depreciated by approximately 8%, compared to the average exchange rates in the three months ended September 30, 2010. This change in exchange rates did not result in any material change in our revenue growth.

Segment Analysis

Global Generics

Revenues from our Global Generics segment were 16,136 million for the three months ended September 30, 2011, an increase of 18% as compared to 13,667 million for the three months ended September 30, 2010. This growth was largely led by revenue increases in this segment s key markets of North America (the United States and Canada) and Russia.

North America (the United States and Canada), Germany, India and Russia were the four key markets of our Global Generics segment, generating approximately 86% of the revenues in this segment for the three months ended September 30, 2011.

North America: Our Global Generics segment s revenues in North America (the United States and Canada) were 6,287 million for the three months ended September 30, 2011, an increase of 42% over the three months ended September 30, 2010. In absolute currency terms (i.e., without taking into account the effect of currency exchange rates), such revenues grew by 45% in the three months ended September 30, 2011 as compared to the three months ended September 30, 2010. This growth was largely attributable to new launches of lansoprazole and fondaparinux, as well as market share expansion in omeprazole Mg OTC. According to IMS Health, Inc. (IMS Health), a provider of market research to the pharmaceutical industry, in its July 2011 Moving Annual Total report, 24 products in our prescription portfolio were ranked among the top 3 in their respective market shares.

We launched five new products in North America (the United States and Canada) during the three months ended September 30, 2011.

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The following table sets forth, for the three months ended September 30, 2011, products launched in North America (the United States and Canada).

Product	Brand	Total annual market size*
Fondaparinux sodium injection	Arixtra®	$0.32 Billion
Amlodipine besylate and benazepril hydrochloride (5/40 mg)	Lotrel®	$0.02 Billion
Rivastigmine tartrate	Excelon®	$0.50 Billion
Gemcitabine for injection	Gemzar®	$0.70 Billion
Fexofenedine-pseudoephedrine HCL OTC	AllegraD24®	N/A

* Approximate total annual market size in the United States at the time of our generic launch, as per IMS Health.

During the three months ended September 30, 2011, we made four new ANDA filings, bringing our cumulative ANDA filings to 185. We now have 76 ANDAs pending approval at the U.S. FDA, out of which 40 are Paragraph IV filings and 11 have first to file status.

North America revenues are expected to grow faster in the six months ending March 31, 2012 as compared to the six months ended September 30, 2011, primarily as a result of: new customer orders at our manufacturing facility in Shreveport, Louisiana, U.S.A.; scale-up in new product launches; the launch of olanzapine 20 mg tablets (the generic version of Eli Lilly s Zyprexa® tablets), pursuant to our arrangement with Teva Pharmaceuticals Inc. and which was awarded a 180-day period of marketing exclusivity from the U.S. FDA; and overall U.S. market share improvements.

Germany: Our Global Generics segment s revenues in Germany were 1,184 million for the three months ended September 30, 2011, a decrease of 27% as compared to the three months ended September 30, 2010. In Euro currency terms (i.e., without taking into account the effect of currency exchange rates), such revenues declined by 33% in the three months ended September 30, 2011 as compared to the three months ended September 30, 2010. The decline was largely due to the continuing pricing challenges as a result of the gradual shift of the German generic pharmaceutical market towards a tender (i.e., competitive bidding) based supply model.

India: Our Global Generics segment s revenues in India for the three months ended September 30, 2011 were 3,459 million, an increase of 9% as compared to the three months ended September 30, 2010. This increase was driven by new product launches and volume increase across existing key products. Revenues from our bio-similar portfolio in India for the three months ended September 30, 2011 recorded a growth of 22% as compared to the three months ended September 30, 2010. During the three months ended September 30, 2011, we launched 3 new brands in India.

Russia: Our Global Generics segment s revenues in Russia were 2,903 million for the three months ended September 30, 2011, an increase of 28% as compared to the three months ended September 30, 2010. In absolute dollar currency terms (i.e., without taking into account the effect of currency exchange rates), such revenues grew by 30% in the three months ended September 30, 2011 as compared to the three months ended September 30, 2010. This growth was led by volume growth in our key brands and growth in secondary sales (i.e., sales made by our wholesalers to stockists and retailers). Our prescription secondary sales growth of 20% for the 12 months ended August 2011 was higher than the industry growth rate of 10%. Our over-the-counter (OTC) portfolio represented 25% of our overall Global Generics segment s sales in Russia for the three months ended September 30, 2011. In the Russian market, we intend to focus on increasing the over-the-counter and in-licensed products in our portfolio.

Other countries of the former Soviet Union: Revenues from other countries of the former Soviet Union were 477 million for the three months ended September 30, 2011, a decrease of 1% as compared to the three months ended September 30, 2010. This decrease was primarily due to a decline in the Ukraine market.

Other Markets: Our Global Generics segment s revenues from our Rest of the World markets (i.e., all markets other than North America, Europe, Russia and other countries of the former Soviet Union and India) were 893 million in the three months ended September 30, 2011, representing a decline of 8% as compared to the three months ended September 30, 2010. Our Rest of the World markets include markets such as Venezuela, South-Africa, Australia and New Zealand, as well as various other small markets. A large part of our Global Generics segment s revenue growth in the South Africa market was more than offset by the decreases in the segment s revenues from Venezuela because of

the currency devaluation. Revenues from our Rest of Europe markets (i.e., all European markets other than Germany) for the three months ended September 30, 2011 were 933 million, representing 26% growth over the three months ended September 30, 2010, resulting from new product launches and higher licensing income.

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Pharmaceutical Services and Active Ingredients (PSAI)

Our PSAI segment s revenues for the three months ended September 30, 2011 were 5,933 million, an increase of 28% as compared to the three months ended September 30, 2010. In absolute dollar currency terms (i.e., without taking into account the effect of currency exchange rates), such revenues grew by 30% in the three months ended September 30, 2011 as compared to the three months ended September 30, 2010. This was largely attributable to an increase in revenues due to new product launches in our active pharmaceutical ingredients business in the European market. In addition, we experienced an increase in revenues from our Custom Pharmaceutical Services business due to increased customer orders. In the three months ended September 30, 2011, we filed 11 Drug Master Files (DMFs) worldwide, including 2 DMFs in the United States. Cumulatively, our total worldwide DMFs as of September 30, 2011 were 506, including 176 DMFs in the United States.

Voluntary Retirement Scheme

On June 20, 2011, we announced a voluntary retirement scheme (i.e., a termination benefit) applicable to certain eligible employees of Dr. Reddy s Laboratories Limited. As per the scheme, employees whose voluntary retirement is accepted by us will be paid an amount computed based on the methodology described in the scheme, with the maximum amount restricted to 0.8 million per employee. As at June 30, 2011, based on the applications received from employees, we had estimated and recognized an amount of 136 million as a termination benefit in its unaudited condensed consolidated interim financial statements. During the three months ended September 30, 2011, we concluded the voluntary retirement scheme and, in accordance with our human resources strategy and projected workforce requirements, we rejected certain retirement applications of our employees. Accordingly, an amount of 42 million has been recognized as termination benefits for the six months ended September 30, 2011 and we accounted for such revision as a change in accounting estimates.

Gross Margin

Our total gross margin was 12,205 million for the three months ended September 30, 2011, representing 54% of our total revenues for that period, as compared to 9,986 million for the three months ended September 30, 2010, representing 53% of our total revenues for that period.

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

	September 30, 2011		**September 30, 2010**	
	Gross margin	**Gross margin (% of revenues)**	**Gross margin**	**Gross margin (% of revenues)**
	(in millions)			
Global Generics	10,200	63%	8,781	64%
Pharmaceutical Services and Active Ingredients	1,690	28%	1,036	22%
Proprietary Products	215	82%	90	68%
Others	100	29%	79	28%
Total	**12,205**	**54%**	**9,986**	**53%**

The gross margin for our Global Generics segment was 63% for the three months ended September 30, 2011, as compared to 64% for the three months ended September 30, 2010. The marginal decrease in gross margin was on account of lower gross margin in Germany market due to the pricing pressures resulting from the gradual shift of the German generic pharmaceutical market towards a tender (i.e., competitive bidding) based supply model.

The gross margin for our Pharmaceutical Services and Active Ingredients (PSAI) segment was 28% for the three months ended September 30, 2011, as compared to 22% for the three months ended September 30, 2010. This significant improvement in gross margin was mainly due to an increase in revenues from launches of new products with higher gross margins and favorable changes in our existing product mix (i.e., an increase in the proportion of this segment s sales of higher gross margin products and a decrease in the proportion of its sales of lower gross margin

products).

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Selling, general and administrative expenses

Our selling, general and administrative expenses were 7,217 million for the three months ended September 30, 2011, an increase of 26% as compared to 5,708 million for the three months ended September 30, 2010. The increase was largely on account of the following:

- higher freight costs on account of rate increases and higher sales volumes;
- increases in selling and marketing costs in connection with efforts to expand our over-the-counter business in Russia; and
- general overhead costs of our recently acquired penicillin facility in Bristol, Tennessee, U.S.A.

Research and development expenses

Our research and development costs were 1,459 million for the three months ended September 30, 2011, an increase of 15% as compared to 1,270 million for the three months ended September 30, 2010. This increase was in-line with our strategy to scale-up our research and development activities across all of our business segments.

Finance income/(expense), net

Our net interest expense was 225 million for the three months ended September 30, 2011, as compared to net interest expense of 5 million for the three months ended September 30, 2010. This change was largely on account of interest on debentures of 118 million and interest due to higher working capital borrowings.

Our foreign exchange gain was 151 million for the three months ended September 30, 2011, as compared to a loss of 49 million for the three months ended September 30, 2010.

As a result of the above, our net finance expense was 50 million for the three months ended September 30, 2011, as compared to 35 million for the three months ended September 30, 2010.

Profit before income taxes

Profit before income taxes was 3,708 million for the three months ended September 30, 2011, as compared to 3,195 million for the three months ended September 30, 2010.

Income tax expense

Income tax expense was 630 million for the three months ended September 30, 2011, as compared to income tax expense of 327 million for the three months ended September 30, 2010. This increase was largely due to the expiration of a tax holiday period of 5 years under the Indian income tax act in our finished dosage unit situated in Baddi, Himachal Pradesh, India and on account of change in business mix between the various subsidiaries of the Company (i.e., an increase in the proportion of income and gain attributable to subsidiaries in higher tax jurisdictions and a decrease in the proportion of income and gain attributable to subsidiaries in lower tax jurisdictions).

Our consolidated effective tax rate was 17% for the three months ended September 30, 2011, as compared to 10% for the three months ended September 30, 2010.

Profit for the period

As a result of the above, our net income was 3,078 million for the three months ended September 30, 2011, representing 14% of our total revenues for such period, as compared to 2,868 million for the three months ended September 30, 2010.

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Section B: Six months ended September 30, 2011 compared to the six months ended September 30, 2010

The following discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and the Operating and Financial Review and Prospects included in our Form 6-K filed for the three months ended June 30, 2011 and the Operating and Financial Review and Prospects for the three months ended September 30, 2011, as explained in Section A. Additional factors affecting the six months comparison are described below.

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

	Six months ended September 30, 2011				Six months ended September 30, 2010			
	Revenues	Revenues (% of total)	Gross profit	Gross profit (% of revenues)	Revenues	Revenues (% of total)	Gross profit	Gross profit (% of revenues)
	(in millions)				(in millions)			
Global Generics	30,560	72%	19,463	64%	25,584	72%	16,517	65%
Pharmaceutical Services and Active Ingredients	10,764	25%	2,734	25%	9,116	26%	2,036	22%
Proprietary Products	461	1%	377	82%	254	1%	170	67%
Others	676	2%	186	28%	581	1%	177	30%
Total	**42,461**	**100%**	**22,760**	**54%**	**35,535**	**100%**	**18,900**	**53%**

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

	Percentage of Sales Six months ended September 30,		Percentage
	2011	2010	Increase/(Decrease)
Revenues	100%	100%	19%
Gross profit	**54%**	**53%**	**20%**
Selling, general and administrative expenses	33%	31%	25%
Research and development expenses	6%	6%	17%
Other (income)/expense, net	(1)%	(1)%	(0)%
Results from operating activities	**15%**	**16%**	**12%**
Finance (income)/expense, net	0%	1%	(55%)
Profit before income taxes	**15%**	**16%**	**14%**
Income tax (expense)/benefit, net.	(2)%	(2)%	10%
Profit for the period	**13%**	**14%**	**15%**

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Revenues

Our overall consolidated revenues were 42,461 million for the six months ended September 30, 2011, an increase of 19% as compared to 35,535 million for the six months ended September 30, 2010.

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

	Six months ended September 30, 2011		Six months ended September 30, 2010	
	Revenues	% of Revenues	Revenues	% of Revenues
	(in millions)			
North America	14,768	35%	10,488	30%
Europe	8,280	20%	7,719	22%
Russia and other countries of the former Soviet Union	6,398	15%	5,303	15%
India	7,807	18%	7,224	20%
Others	5,208	12%	4,801	13%
Total	**42,461**	**100%**	**35,535**	**100%**

Segment Analysis

Global Generics

Revenues from our Global Generics segment were 30,560 million for the six months ended September 30, 2011, an increase of 19% as compared to 25,584 million for the six months ended September 30, 2010. This growth was largely led by revenue increases in this segment s key markets of North America (the United States and Canada) and Russia.

North America: Our Global Generics segment s revenues in North America (the United States and Canada), for the six months ended September 30, 2011 were 12,043 million, an increase of 45% as compared to the six months ended September 30, 2010.

The following table sets forth, for the six months ended September 30, 2011, products launched in North America (the United States and Canada):

Product	Brand	Total annual market size*
Donepezil HCL	Aricept®	$2.10 Billion
Venlafaxine-XR	Effexor XR®	$2.50 Billion
Letrozole	Femara®	$0.70 Billion
Levofloxacin	Levaquin®	$1.70 Billion
Topotecan injection	Hycamtin®	$0.10 Billion
Fondaparinux sodium injection	Arixtra®	$0.32 Billion
Amlodipine besylate & benazepril hydrochloride (5/40 mg)	Lotrel®	$0.02 Billion
Rivastigmine tartrate	Exelon®	$0.10 Billion
Gemcitabine for injection	Gemzar®	$0.70 Billion
Fexofenedine-pseudoephedrine HCL OTC	Allegra-D24®	NA
Amoxicillin clavulanic acid (Oral suspension + Tabs)	Augmentin®	$0.46 Billion

* Approximate total annual market size in the United States at the time of our generic launch, as per IMS Health.

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Germany: Our Global Generics segment s revenues in Germany were 2,391 million for the six months ended September 30, 2011, a decrease of 19% as compared to the six months ended September 30, 2010.
India: Our Global Generics segment s revenues in India were 6,395 million for the six months ended September 30, 2011, an increase of 8% as compared to the six months ended September 30, 2010.
Russia: Our Global Generics segment s revenues in Russia were 5,388 million for the six months ended September 30, 2011, an increase of 24% as compared to the six months ended September 30, 2010.
Other Countries of former Soviet Union: Revenues from other countries of the former Soviet Union were 1,010 million, for the six months ended September 30, 2011, an increase of 4% as compared to the six months ended September 30, 2010.
Other Markets: Our Global Generics segment s revenues from our Rest of the world markets (i.e., all markets other than North America (the United States and Canada), Europe, Russia and other countries of the former Soviet Union and India) were 1,690 million for the six months ended September 30, 2011, a decrease of 2% as compared to the six months ended September 30, 2010. Our revenues from our Rest of Europe markets (i.e., all European markets other than Germany) for the six months ended September 30, 2011 were 1,643 million, representing a growth of 21% as compared to the six months ended September 30, 2010.

Pharmaceutical Services and Active Ingredients (PSAI)

Our PSAI segment s revenues for the six months ended September 30, 2011 were 10,764 million, an increase of 18% as compared to the six months ended September 30, 2010.

Gross Margin

Our total gross margin was 22,760 million for the six months ended September 30, 2011, representing 54% of our total revenues for that period, as compared to 18,900 million for the six months ended September 30, 2010, representing 53% of our total revenues for that period.

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

	Six months ended September 30, 2011		**Six months ended September 30, 2010**	
	Gross margin	**Gross margin (% of revenues)**	**Gross margin**	**Gross margin (% of revenues)**
	(in millions)			
Global Generics	19,463	64%	16,517	65%
Pharmaceutical Services and Active Ingredients	2,734	25%	2,036	22%
Proprietary Products	377	82%	170	67%
Others	186	28%	177	30%
Total	**22,760**	**54%**	**18,900**	**53%**

Selling, general and administrative expenses

Our selling, general and administrative expenses were 13,972 million for the six months ended September 30, 2011, an increase of 25% as compared to 11,188 million for the six months ended September 30, 2010.

Research and development expenses

Our research and development expenses were 2,656 million for the six months ended September 30, 2011, an increase of 17% as compared to 2,263 million for the six months ended September 30, 2010. This increase was in-line with our strategy to scale-up our research and development activities across all of our business segments.

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Finance income/(expense), net

Our net interest expense was 447 million for the six months ended September 30, 2011, as compared to net interest income of 4 million for the six months ended September 30, 2010.

Our foreign exchange gain was 309 million for the six months ended September 30, 2011, as compared to a loss of 274 million for the six months ended September 30, 2010.

As a result of the above, our net finance expense was 96 million for the six months ended September 30, 2011, as compared to 214 million for the six months ended September 30, 2010.

Profit before income taxes

Profit before income taxes was 6,455 million for the six months ended September 30, 2011, as compared to 5,647 million for the six months ended September 30, 2010.

Income tax expense

Income tax expense was 750 million for the six months ended September 30, 2011, as compared to income tax expense of 684 million for the six months ended September 30, 2010.

Profit for the period

As a result of the above, our net income was 5,705 million for the six months ended September 30, 2011, representing 13% of our total revenues for such period, as compared to 4,963 million for the six months ended September 30, 2010.

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ITEM 3. LIQUIDITY AND CAPITAL RESOURCES

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

As part of our growth strategy, we continue to review opportunities to acquire companies, complementary technologies or product rights. To the extent that any such acquisitions involve cash payments, rather than the issuance of shares, we may need to borrow from banks or raise additional funds from the debt or equity markets.

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

	Six months ended September 30,			
	2011		**2011**	**2010**
	(in millions, U.S.$ in millions)			
	Convenience translation into U.S.$			
Net cash from/(used in):				
Operating activities	4,250	U.S.$	87	3,207
Investing activities	(7,002)		(143)	(187)
Financing activities	4,131		84	(3,165)
Net increase/(decrease) in cash and cash equivalents	1,379	U.S.$	28	(145)

Operating Activities

The net result of operating activities was a cash inflow of 4,250 million for the six months ended September 30, 2011, as compared to a cash inflow of 3,207 million for the six months ended September 30, 2010. The net cash provided by operating activities increased marginally during the current period primarily on account of improvement in our business performance resulting in an increase of 1,735 million in earnings before interest expense, tax expense, depreciation, impairment and amortization (9,403 million for the six months ended September 30, 2011, as compared to 7,668 million for the six months ended September 30, 2010).

This was partially offset by an increase in inventory for the six months ended September 30, 2011 as compared to the six months ended September 30, 2010.

Investing Activities

Our investing activities resulted in a net cash outflow of 7,002 million for the six months ended September 30, 2011, as compared to a net cash outflow of 187 million for the six months ended September 30, 2010. This increase of 6,815 million was primarily due to:

- Approximately 1,605 million of cash outflow during the six months ended September 30, 2011 for settlement of a liability created as at March 31, 2011 relating to acquisition of the rights to manufacture, distribute and market the product Cloderm® (clocortolone pivalate 0.1%) in the United States.
- There were no cash inflows from liquidation of investments during the six months ended September 30, 2011. In contrast, there was approximately 3,630 million in cash inflow upon liquidation of certain investments during the six months ended September 30, 2010, which liquidation was effected to raise funds for the settlement of the I-VEN portfolio termination value option, and to meet our capital expenditure requirements.

Financing Activities

Our financing activities resulted in a net cash inflow of 4,131 million for the six months ended September 30, 2011, as compared to a net cash outflow of 3,165 million for the six months ended September 30, 2010. The change in cash inflow from financing activities was primarily due to:

- An increase in our short term borrowings, net of re-payment, by 5,121 million. The increase in short term borrowings was primarily for meeting our working capital requirements.
- The repayment in full of long term debt of 885 million during the year ended March 31, 2011, which had been outstanding and had required debt service during the six months ended September 30, 2010.

No sums were paid to acquire non-controlling interests during the six months ended September 30, 2011. In contrast, we paid 524 million to acquire non-controlling interests during the six months ended September 30, 2010.

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Principal Debt Obligations

The following table provides a list of our principal debt obligations (excluding capital lease obligations) outstanding as of September 30, 2011:

Debt	Principal Amount	Interest Rate
	(in millions, U.S.$ in millions)	

ITEM 4. RECENT DEVELOPMENTS

Olanzapine approval

On October 24, 2011, we received an approval and were awarded a 180-day period of marketing exclusivity from the U.S. FDA for olanzapine 20 mg tablets (our generic version of Eli Lilly s Zyprexa® 20 mg). The U.S. FDA has also awarded a 180-day period of marketing exclusivity to Teva Pharmaceuticals Inc. (Teva) for its olanzapine tablets in 2.5 mg, 5 mg, 7.5 mg, 10 mg and 15 mg dosages. Pursuant to a commercialization, manufacture and supply agreement (the Supply Agreement) which we entered into with Teva in April 2011, Teva will distribute olanzapine 20 mg tablets in the United States and we will manufacture and supply Teva with such olanzapine 20 mg tablets. In addition, as per the terms of the Supply Agreement, we will launch our 2.5 mg, 5 mg, 7.5 mg, 10 mg, 15 mg and 20 mg of olanzapine tablets upon expiration of the 180-day exclusivity period. Accordingly, on October 24, 2011, sales of the olanzapine 20 mg tablets along with other strengths were launched by Teva in the United States in accordance with the Supply Agreement.

National Pharmaceutical Pricing Policy in India

In October 2011, the Department of Pharmaceuticals of the Government of India circulated a draft of National Pharmaceutical Pricing Policy 2011, which proposes to replace the existing price control regime and intends to increase the availability of affordable healthcare. The draft policy seeks to change the control mechanism from the existing cost based approach towards that of a market based ceiling price approach. Under this new market based approach, a ceiling price would apply based upon readily monitorable market based data and, in some cases, based on the weighted average price of the top 3 brands in a segment. Prices would be allowed to be revised annually up to the limit of the change in the Indian wholesale price index for manufactured goods. In the event of a decline in such index, a corresponding reduction in the ceiling price will be mandatory.

The draft policy seeks to broaden the scope of medicines under price control, as the list of drugs proposed to be regulated by this draft policy includes all of the 348 essential drugs listed in the National List of Essential Medicines, as compared to the 74 bulk drugs which are included in the present policy regime. It is estimated that the new policy in its proposed form would subject to pricing control medicines representing approximately 60% of the Indian formulations market (measured by revenues), as compared to approximately 20% under the existing regime. The draft policy is currently open for comments until November 30, 2011. Various pharmaceutical industry representatives are expected to comment on the draft policy in order to promote a comprehensive approach that is in the interest of all stakeholders and does not impede the growth and development of the Indian pharmaceutical industry or have a long-term negative impact on India s health care goals. We are evaluating the impact of the draft policy on our business in India.

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New federal law on fundamentals of public health protection in Russia

The Russian Federation passed a new federal law on fundamentals of public health protection on November 1, 2011 which will be implemented as of January 1, 2012. The new law, among other things:

- prohibits medical practitioners from receiving from pharmaceutical companies gifts, cash, payment for entertainment, leisure, travel to holiday resorts, and samples of medicines and products for delivery to patients;
- prohibits medical practitioners from lecturing and participating in (but not attending) seminars sponsored by pharmaceutical companies; and
- imposes new conflict of interest definitions and standards.

The new law permits pharmaceutical companies to visit health care professionals during clinical trials in order to improve the professional skills of the practitioners, as well as to collect information on side effects relating to treatments and medicines. It also permits health care professionals to enter into contracts to conduct educational and scientific activities.

Under the new law, Russian Federation medical care is provided according to procedures and standards for rendering medical care. The medical care standards are in line with the guidelines given by the World Health Organization for medicines usage and therapeutic chemical classification. For a medical practitioner to prescribe a drug or medical product not included in the medical care standards under a specific prognosis, they will need to obtain a decision from a health commission run by the head of the medical institution or deputies.

The Company has in place existing policies and procedures regulating interaction between the Company s employees and medical practitioners. These policies will need to be aligned with the new Russian Federation law.

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ITEM 5. EXHIBITS

Exhibit Number	Description of Exhibits
99.1	Independent Auditors Report on Review of Unaudited Condensed Consolidated Interim Financial Statements

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SIGNATURES

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

DR. REDDY S LABORATORIES LIMITED
(Registrant)

Date: December 12, 2011

By: /s/ Sandeep Poddar
Name: Sandeep Poddar
Title: Company Secretary