

NUVEEN QUALITY PREFERRED INCOME FUND 2
Form N-2
October 29, 2012

As filed with the U.S. Securities and Exchange Commission on October 29, 2012

1933 Act File No. 333-

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U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549-0102

Form N-2

(Check appropriate box or boxes)

REGISTRATION STATEMENT UNDER THE
SECURITIES ACT OF 1933

X

Pre-Effective Amendment No.

Post-Effective Amendment No.

and/or

REGISTRATION STATEMENT UNDER THE
INVESTMENT COMPANY ACT OF 1940

X

Amendment No. 8

X

Nuveen Quality Preferred Income Fund 2

(Exact name of Registrant as Specified in Charter)

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333 West Wacker Drive, Chicago, Illinois 60606

(Address of Principal Executive Offices)

(Number, Street, City, State, Zip Code)

(Registrant's Telephone Number, including Area Code): (800) 257-8787

Kevin J. McCarthy

Vice President and Secretary

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Copies to:

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Washington, DC 200046-1806

Approximate Date of Proposed Public Offering: As soon as practicable after the effective date of this Registration Statement.

If the securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box.

It is proposed that this filing will become effective (check appropriate box)

.. When declared effective pursuant to section 8(c)

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

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Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Unit(1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(2)
Common Shares, \$0.01 par value	1,000 Shares	\$ 9.30	\$ 9,300	\$ 1.27

(1) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(c) under the Securities Act of 1933 based on the average of the high and low sales prices of the shares of beneficial interest on October 23, 2012 as reported on the New York Stock Exchange.

(2) Transmitted prior to filing.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such dates as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

The information in this Preliminary Prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This Preliminary Prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS

12 Million Common Shares

Nuveen Quality Preferred Income Fund 2

Nuveen Quality Preferred Income Fund 2 (the *Fund*) is a non-diversified, closed-end management investment company. The *Fund*'s primary investment objective is high current income consistent with capital preservation. The *Fund*'s secondary investment objective is to enhance portfolio value relative to the market for preferred securities by investing in (i) securities that the *Fund*'s sub-adviser, Spectrum Asset Management, Inc. (*Spectrum*), believes are underrated or undervalued or (ii) sectors that *Spectrum* believes are undervalued. The *Fund* seeks to achieve its investment objectives by investing, under normal circumstances, at least 80% of its Managed Assets (as defined below under *Portfolio Contents*) in preferred securities. Under normal circumstances, the *Fund* invests 100% of its Managed Assets in securities that, at the time of investment, are rated within the four highest grades by all nationally recognized statistical rating organizations (*NRSRO*) that rate such security or are unrated but judged to be of comparable quality by *Spectrum* (*i.e.*, investment grade), which may include up to 10% in securities that are rated investment grade by at least one *NRSRO* and below investment grade by another *NRSRO* (sometimes called, *split-rated*). The *Fund* may invest up to 20% of its Managed Assets in debt securities, including convertible debt securities and convertible preferred securities. The *Fund* cannot assure you that it will achieve its investment objectives.

Investing in the *Fund*'s Common Shares involves certain risks that are described in the Risk Factors and How the Fund Manages Risk sections of this Preliminary Prospectus.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or determined if this Preliminary Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

You should read this Preliminary Prospectus, which contains important information about the *Fund*, before deciding whether to invest and retain it for future reference. A Preliminary Statement of Additional Information (*SAI*), dated October 29, 2012, containing additional information about the *Fund*, has been filed with the SEC and is incorporated by reference in its entirety into this Preliminary Prospectus. You may request a free copy of the *SAI*, the table of contents of which is on the last page of this Preliminary Prospectus, annual and semi-annual reports to shareholders and other information about the *Fund*, and make shareholder inquiries by calling (800) 257-8787, by writing to the *Fund* or from the *Fund*'s website (<http://www.nuveen.com>). The information contained in, or that can be accessed through, the *Fund*'s website is not part of this

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Preliminary Prospectus. You also may obtain a copy of the SAI (and other information regarding the Fund) from the Securities and Exchange Commission's (SEC) web site (<http://www.sec.gov>).

The Fund's common shares do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other governmental agency.

Portfolio Contents. Under normal circumstances, the Fund invests at least 80% of its Managed Assets (as defined below) in preferred securities. Under normal circumstances, the Fund's portfolio of preferred securities consists of both fixed rate preferred and adjustable rate preferred securities. Under normal circumstances, the Fund invests 100% of its Managed Assets in securities that, at the time of investment, are rated within the four highest grades by all NRSROs that rate such security (*i.e.*, investment grade) or are unrated but judged to be of comparable quality by Spectrum, which may include up to 10% in securities that are rated investment grade by at

least one NRSRO and below investment grade by another NRSRO (sometimes called, split-rated). The Fund may invest up to 20% of its Managed Assets in debt securities, including convertible debt securities and convertible preferred securities. Managed Assets means the total assets of the Fund, minus the sum of its accrued liabilities (other than Fund liabilities incurred for the express purpose of creating leverage). Total assets for this purpose shall include assets attributable to the Fund's use of financial leverage through borrowing or the use of commercial paper or notes. The policies described in this section are not considered to be fundamental by the Fund and can be changed by the Board of Trustees without a vote of the outstanding shareholders.

Adviser and Sub-adviser. Nuveen Fund Advisors, Inc., the Fund's investment adviser, is responsible for determining the Fund's overall investment strategies and their implementation. Spectrum Asset Management, Inc. is the Fund's investment sub-adviser and oversees the day-to-day investment operations of the Fund.

The minimum price on any day at which Common Shares may be sold will not be less than the current net asset value per share plus the per share amount of the commission to be paid to the Fund's distributor, Nuveen Securities, LLC (Nuveen Securities). The Fund and Nuveen Securities will suspend the sale of Common Shares if the per share price of the shares is less than the minimum price. The Fund currently intends to distribute the shares offered pursuant to this Preliminary Prospectus primarily through at-the-market transactions, although from time to time it may also distribute shares through an underwriting syndicate or a privately negotiated transaction. To the extent shares are distributed other than through at-the-market transactions, the Fund will file a supplement to this Preliminary Prospectus describing such transactions. For information on how Common Shares may be sold, see the Plan of Distribution section of this Preliminary Prospectus.

The common shares are listed on the New York Stock Exchange. The trading or ticker symbol of the common shares of the Fund is JPS. The Fund's closing price on the New York Stock Exchange on October 23, 2012 was \$9.35.

The date of this Preliminary Prospectus is October 29, 2012

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You should rely only on the information contained or incorporated by reference into this Preliminary Prospectus. The Fund has not authorized anyone to provide you with different information. The Fund is not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this Preliminary Prospectus is accurate as of any date other than the date on the front of this Preliminary Prospectus. The Fund will update this Preliminary Prospectus to reflect any material changes to the disclosures herein.

PROSPECTUS SUMMARY

This is only a summary. You should review the more detailed information contained elsewhere in this Prospectus and in the SAI.

The Fund

Nuveen Quality Preferred Income Fund 2 (the Fund) is a non-diversified, closed-end management investment company. See The Fund. The Fund's common shares, \$0.01 par value (Common Shares), are traded on the New York Stock Exchange (NYSE) under the symbol JPS. See Description of Common Shares. As of September 30, 2012, the Fund had 120,376,176 Common Shares outstanding and net assets applicable to Common Shares of \$1,130,628,648.

Investment Objectives and Policies

The Fund's primary investment objective is high current income consistent with capital preservation. The Fund's secondary investment objective is to enhance portfolio value relative to the market for preferred securities by investing in (i) securities that the Fund's sub-adviser believes are underrated or undervalued or (ii) sectors that the Fund's sub-adviser believes are undervalued. The Fund cannot assure you that it will achieve its investment objectives.

Under normal circumstances, the Fund invests at least 80% of its Managed Assets in preferred securities. Managed Assets means the total assets of the Fund, minus the sum of its accrued liabilities (other than Fund liabilities incurred for the express purpose of creating leverage). Total assets for this purpose shall include assets attributable to the Fund's use of financial leverage through borrowing or the use of commercial paper or notes. Under normal circumstances, the Fund's portfolio of preferred securities consists of both fixed rate preferred and adjustable rate preferred securities.

Under normal circumstances, the Fund invests 100% of its Managed Assets in securities that, at the time of investment, are rated within the four highest grades by all nationally recognized statistical rating organizations (NRSRO) that rate such security or are unrated but judged to be of comparable quality by Spectrum (*i.e.*, investment grade), which may include up to 10% in securities that are rated investment grade by at least one NRSRO and below investment grade by another NRSRO (sometimes called, split-rated).

In addition, under normal circumstances, the Fund may:

invest up to 35% of its Managed Assets in U.S. dollar denominated securities of non-U.S. issuers offered, traded or listed in U.S. markets;

invest up to 20% of its Managed Assets in debt securities, including convertible debt securities and convertible preferred securities; and

invest up to 10% of its Managed Assets in illiquid securities, although the Fund has no current intention to invest in such securities.

The preferred securities in which the Fund intends to primarily invest do not make payments that qualify for the dividends received deduction under Section 243 of the Internal Revenue Code of 1986, as amended

(the Code). The dividends received deduction generally allows corporations to deduct from their income 70% of dividends received. The preferred securities in which the Fund intends to primarily invest also do not make payments that qualify as qualified dividend income under the Code. For taxable years beginning before January 1, 2013, qualified dividend income is taxable to noncorporate shareholders at reduced rates. Accordingly, each shareholder should assume that no significant portion of the distributions it receives from the Fund will qualify for the dividends received deduction or as qualified dividend income. See Tax Matters for a more complete discussion.

The Fund's objectives and certain investment policies specifically identified in the SAI as such are considered fundamental and may not be changed without shareholder approval. All of the Fund's other investment policies, including as noted above, are not considered to be fundamental by the Fund and can be changed by the Board of Trustees without a vote of the outstanding shareholders. However, the Fund's policy of investing at least 80% of its Managed Assets in preferred securities may only be changed by the Board of Trustees following the provision of 60 days' prior written notice to such shareholders.

See The Fund's Investments and Risk Factors.

Investment Adviser

Nuveen Fund Advisors, Inc. (NFA) serves as the Fund's investment adviser. NFA, a registered investment adviser, is responsible for determining the Fund's overall strategy and its implementation. See Management of the Fund Investment Adviser, Sub-Adviser and Portfolio Manager.

Sub-adviser

Spectrum Asset Management, Inc. serves as the Fund's sub-adviser. Spectrum, a registered investment adviser, is responsible for the Fund's day-to-day investment operations.

Nuveen Securities, LLC (Nuveen Securities), a registered broker-dealer affiliate of NFA and Spectrum, is involved in the offering of the Fund's Common Shares. See Plan of Distribution-Distribution Through At-the-Market Transactions.

Use of Leverage

The Fund employs financial leverage through borrowing or the use of commercial paper or notes (collectively Borrowing). The Fund has entered into a prime brokerage facility with BNP Paribas Prime Brokerage, Inc. The Fund's maximum commitment amount is \$427,000,000. For the fiscal year ended July 31, 2012, the average daily balance outstanding and average annual interest rate on the Fund's borrowings were \$377,395,082 and 1.35%, respectively.

The Fund has issued preferred shares in the past, but does not currently have any preferred shares outstanding. The Fund may issue preferred shares in the future. See Description of Shares Preferred Shares.

Leverage involves special risks. See Risk Factors Leverage Risks. There is no assurance that the Fund's leveraging strategy will be successful. The Fund will seek to invest the proceeds of any future financial leverage in a manner consistent with the Fund's investment objectives and policies. See Use of Leverage.

Offering Methods

The Fund may offer shares using one or more of the following methods: (i) at-the-market transactions through one or more broker-dealers that have entered into a selected dealer agreement with Nuveen Securities, one of the Fund's underwriters; (ii) through an underwriting syndicate; and (iii) through privately negotiated transactions between the Fund and specific investors. See Plan of Distribution.

Distribution Through At-the-Market Transactions. The Fund from time to time may offer its Common Shares through Nuveen Securities, to certain broker-dealers that have entered into selected dealer agreements with Nuveen Securities. Currently, Nuveen Securities has entered into a selected dealer agreement with UBS Securities LLC ("UBS") pursuant to which UBS will be acting as Nuveen Securities' sub-placement agent with respect to at-the-market offerings of Common Shares. Common Shares will only be sold on such days as shall be agreed to by the Fund and Nuveen Securities. Common Shares will be sold at market prices, which shall be determined with reference to trades on the Exchange, subject to a minimum price to be established each day by the Fund. The minimum price on any day will not be less than the current net asset value per share plus the per share amount of the commission to be paid to Nuveen Securities. The Fund and Nuveen Securities will suspend the sale of Common Shares if the per share price of the shares is less than the minimum price.

The Fund will compensate Nuveen Securities with respect to sales of the Common Shares at a commission rate of 1% of the gross proceeds of the sale of Common Shares. Nuveen Securities will compensate broker-dealers participating in the offering at a fixed rate of 0.8% of the gross sales proceeds of the sale of Common Shares sold by that broker-dealer. Nuveen Securities may from time to time change the dealer re-allowance. Settlements of Common Share sales will occur on the third business day following the date of sale.

In connection with the sale of the Common Shares on behalf of the Fund, Nuveen Securities may be deemed to be an underwriter within the meaning of the Securities Act of 1933 (the "1933 Act"), and the compensation of Nuveen Securities may be deemed to be underwriting commissions or discounts. Unless otherwise indicated in a further Prospectus supplement, Nuveen Securities will act as underwriter on a reasonable efforts basis.

The offering of Common Shares pursuant to the Distribution Agreement will terminate upon the earlier of (i) the sale of all Shares subject thereto or (ii) termination of the Distribution Agreement. The Fund and Nuveen Securities each have the right to terminate the Distribution Agreement in its discretion at any time. See Plan of Distribution Distribution Through Agents.

The Fund currently intends to distribute the shares offered pursuant to this Prospectus primarily through at-the-market transactions, although from time to time it may also distribute shares through an underwriting syndicate or a privately negotiated transaction. To the extent shares are distributed other than through at-the-market transactions, the Fund will file a supplement to this Prospectus describing such transactions.

UBS, its affiliates and their respective employees hold or may hold in the future, directly or indirectly, investment interests in Nuveen Investments,

Inc. and its funds. The interests held by employees of UBS or its affiliates are not attributable to, and no investment discretion is held by, UBS or its affiliates.

The Fund's closing price on the New York Stock Exchange on October 23, 2012 was \$9.35.

Distribution Through Underwriting Syndicates. The Fund from time to time may issue additional Common Shares through a syndicated secondary offering. In order to limit the impact on the market price of the Fund's Common Shares, underwriters will market and price the offering on an expedited basis (e.g., overnight or similarly abbreviated offering period). The Fund will launch a syndicated offering on a day, and upon terms, mutually agreed upon between the Fund, Nuveen Securities and the underwriting syndicate.

The Fund will offer its shares at a price equal to a specified discount of up to 5% from the closing market price of the Fund's Common Shares on the day prior to the offering date. The applicable discount will be negotiated by the Fund and Nuveen Securities in consultation with the underwriting syndicate on a transaction-by-transaction basis. The Fund will compensate the underwriting syndicate out of the proceeds of the offering based upon a sales load of up to 4% of the gross proceeds of the sale of Common Shares. The minimum net proceeds per share to the Fund will not be less than the greater of (i) the Fund's latest net asset value per Common Share or (ii) 91% of the closing market price of the Fund's Common Shares on the day prior to the offering date. See Plan of Distribution Distribution Through Underwriters.

Distribution Through Privately Negotiated Transactions. The Fund, through Nuveen Securities, from time to time may sell directly to, and solicit offers from, institutional and other sophisticated investors, who may be deemed to be underwriters as defined in the 1933 Act for any resale of Common Shares.

The terms of such privately negotiated transactions will be subject to the discretion of the management of the Fund. In determining whether to sell Common Shares through a privately negotiated transaction, the Fund will consider relevant factors including, but not limited to, the attractiveness of obtaining additional funds through the sale of Common Shares, the purchase price to apply to any such sale of Common Shares and the investor seeking to purchase the Common Shares.

Common Shares issued by the Fund through privately negotiated transactions will be issued at a price equal to the greater of (i) the net asset value per Common Share of the Fund's Common Shares or (ii) at a discount ranging from 0% to 5% of the average daily closing market price of the Fund's Common Shares at the close of business on the two business days preceding the date upon which Common Shares are sold pursuant to the privately negotiated transaction. The applicable discount will be determined by the Fund on a transaction-by-transaction basis. See Plan of Distribution Distribution Through Privately Negotiated Transactions.

Special Risk Considerations

Investment in the Fund involves special risk considerations, which are summarized below. The Fund is designed as a long-term investment and not

as a trading vehicle. The Fund is not intended to be a complete investment program. See **Risk Factors** for a more complete discussion of the special risk considerations of an investment in the Fund.

Investment and Market Risk. An investment in the Fund's Common Shares is subject to investment risk, including the possible loss of the entire principal amount that you invest. Your investment in Common Shares represents an indirect investment in the securities owned by the Fund, substantially all of which are traded on a national securities exchange or in the over-the-counter markets. Your Common Shares at any point in time may be worth less than your original investment, even after taking into account the reinvestment of Fund dividends and distributions. See **Risk Factors** **Investment and Market Risk**

Market Discount from Net Asset Value. Shares of closed-end investment companies like the Fund have during some periods traded at prices higher than net asset value and have during other periods traded at prices lower than net asset value. The Fund cannot predict whether Common Shares will trade at, above or below net asset value. This characteristic is a risk separate and distinct from the risk that the Fund's net asset value could decrease as a result of investment activities. Investors bear a risk of loss to the extent that the price at which they sell their shares is lower in relation to the Fund's net asset value than at the time of purchase, assuming a stable net asset value. Proceeds from the sale of Common Shares in this offering will be reduced by shareholder transaction costs (if applicable, which vary depending on the offering method used). Depending on the premium of the Common Shares at the time of any offering of Common Shares hereunder, the Fund's net asset value may be reduced by an amount up to the offering costs borne by the Fund (estimated to be an additional 0.17% of the offering price assuming a Common Share offering price of \$9.35 (the Fund's closing price on the Exchange on October 23, 2012)).

The net asset value per Common Share will also be reduced by costs associated with any future issuances of Common or preferred shares. The Common Shares are designed primarily for long-term investors, and you should not view the Fund as a vehicle for trading purposes. See **Risk Factors** **Market Discount from Net Asset Value and Expected Reductions in Net Asset Value**.

Preferred Securities Risks. Generally, preferred security holders have no voting rights with respect to the issuing company unless preferred dividends have been in arrears for a specified number of periods, at which time the preferred security holders may elect a number of directors to the issuer's board. Generally, once all the arrearages have been paid, the preferred security holders no longer have voting rights. In the case of certain preferred securities issued by trusts or special purpose entities, holders generally have no voting rights, except if a declaration of default occurs and is continuing. In such an event, rights of preferred security holders generally would include the right to appoint and authorize a trustee to enforce the trust or special purpose entity's rights as a creditor under the agreement with its operating company. In certain circumstances, an issuer of preferred securities may redeem the securities prior to a specified date. For instance, for certain types of preferred securities, a redemption may be triggered by a change in federal income tax or securities laws or regulatory

or major corporate action. A redemption by the issuer may negatively impact the return of the security held by the Fund.

The preferred securities market is comprised predominately of securities issued by companies in the financial services industry. Therefore, preferred securities present substantially increased risks at times of financial turmoil, which could affect financial services companies more than companies in other sectors and industries. See *Risk Factors Preferred Securities Risks*.

Interest Rate Risk. Interest rate risk is the risk that fixed rate securities, such as preferred and debt securities, will decline in value because of changes in market interest rates. When market interest rates rise, the market value of such securities generally will fall. Longer-term fixed rate securities are generally more sensitive to interest rate changes. The Fund's investment in such securities means that the net asset value and market price of Common Shares will tend to decline if market interest rates rise. Currently, market interest rates are at or near record historical lows. See *Risk Factors Interest Rate Risk*.

Reinvestment Risk. During periods of declining interest rates, an issuer may exercise its option to prepay principal earlier than scheduled, forcing the Fund to reinvest in lower yielding securities. This is known as call or prepayment risk. During periods of rising interest rates, the average life of certain types of securities may be extended because of slower than expected principal payments. This may lock in a below market interest rate, increase the security's duration and reduce the value of the security. This is known as extension risk. See *Risk Factors Reinvestment Risk*.

Interest Rate Transaction Risk. In connection with the Fund's use of leverage through Borrowings or any issuance of preferred shares, the Fund may enter into interest rate swap or cap transactions. The use of interest rate swaps and caps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions.

In an interest rate swap, the Fund would agree to pay to the other party to the interest rate swap (which is known as the counterparty) a fixed rate payment in exchange for the counterparty agreeing to pay to the Fund a variable rate payment obligation on preferred shares or any variable rate Borrowings. The payment obligations would be based on the notional amount of the swap.

In an interest rate cap, the Fund would pay a premium to the counterparty to the interest rate cap and, to the extent that a specified variable rate index exceeds a predetermined fixed rate, would receive from the counterparty payments of the difference based on the notional amount of such cap. If the counterparty to an interest rate swap or cap defaults, the Fund would be obligated to make the payments that it had intended to avoid.

Depending on the general state of short-term interest rates and the returns on the Fund's portfolio securities at that point in time, this default could negatively impact the Fund's ability to make dividend payments on any outstanding preferred shares.

In addition, at the time an interest rate swap or cap transaction reaches its scheduled termination date, there is a risk that the Fund would not be able to

obtain a replacement transaction or that the terms of the replacement would not be as favorable as on the expiring transaction. If this occurs, it could have a negative impact on the Fund's ability to make dividend payments on any outstanding preferred shares or interest payments on Borrowings. If the Fund fails to meet an asset coverage ratio required by law or if the Fund does not meet a rating agency guideline in a timely manner, the Fund may be required to redeem some or all of the preferred shares. See *Description of Shares Preferred Shares*. Similarly, the Fund could be required to prepay the principal amount of Borrowings, if any. Such redemption or prepayment would likely result in the Fund seeking to terminate early all or a portion of any swap or cap transaction. Early termination of a swap could result in a termination payment by or to the Fund.

Early termination of a cap could result in a termination payment to the Fund. The Fund intends to maintain in a segregated account with its custodian, cash or liquid securities having a value at least equal to the Fund's net payment obligations under any swap transaction, marked-to-market daily. The Fund will not enter into interest rate swap or cap transactions having a notional amount that exceeds the outstanding amount of the Fund's leverage. See *Use of Leverage and Risk Factors Leverage*, *Risk Factors Derivatives*, *Risk Factors Hedging* and *The Fund's Investments*.

Tax Risk. The Fund may invest in preferred securities the federal income tax treatment of which may not be clear or may be subject to re-characterization by the Internal Revenue Service. It could be more difficult for the Fund to comply with the tax requirements applicable to regulated investment companies if the tax characterization of the Fund's investments or the tax treatment of the income from such investments were successfully challenged by the Internal Revenue Service. See *Tax Matters*.

Concentration and Financial Services Industry Risk. The Fund normally invests at least 25% of its Managed Assets in securities of financial services companies. A financial services company is one that is primarily involved in banking, mortgage finance, consumer finance, specialized finance, investment banking and brokerage, asset management and custody, corporate lending, insurance, financial investments, or real estate, including REITs. This policy makes the Fund more susceptible to adverse economic or regulatory occurrences affecting those companies. Concentration of investments in financial services companies includes the following risks:

financial services companies may suffer a setback if regulators change the rules under which they operate;

unstable interest rates can have a disproportionate effect on the financial services sector;

financial services companies whose securities the Fund may purchase may themselves have concentrated portfolios, such as a high level of loans to real estate developers, which makes them vulnerable to economic conditions that affect that sector;

financial services companies have been affected by increased competition, which could adversely affect the profitability or viability of such companies; and

financial services companies have been significantly and negatively affected by the downturn in the subprime mortgage lending market and the resulting impact on the world's economies.

See Risk Factors Concentration and Financial Services Industry Risk.

Non-Diversified Fund Risk. Because the Fund is classified as non-diversified under the 1940 Act, it can invest a greater portion of its assets in obligations of a single issuer than a diversified fund. As a result, the Fund may be more susceptible than a diversified fund to any single corporate, economic, political, geographic or regulatory occurrence. See The Fund's Investments and Risk Factors Non-Diversification.

Legislation and Regulatory Risk. At any time after the date of this Prospectus, legislation or additional regulations may be enacted that could negatively affect the assets of the Fund or the issuers of such assets. Changing approaches to regulation may have a negative impact on the entities and/or securities in which the Fund invests. Legislation or regulation may also change the way in which the Fund itself is regulated. There can be no assurance that future legislation, regulation or deregulation will not have a material adverse effect on the Fund or will not impair the ability of the Fund to achieve its investment objectives.

In addition, as new rules and regulations resulting from the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) are implemented and new international capital and liquidity requirements are introduced under the Basel III Accords (Basel III), the market may not react the way NFA or Spectrum expects. Whether the Fund achieves its investment objectives may depend on, among other things, whether NFA or Spectrum correctly forecast market reactions to this and other legislation. In the event NFA and Spectrum incorrectly forecast market reaction, the Fund may not achieve its investment objective and a Common Shareholder's shares may be worth less than his or her original investment.

Leverage Risk. The use of financial leverage created through Borrowings or issuing preferred shares in the future creates an opportunity for increased Common Share net income and returns, but also creates special risks for Common Shareholders. There is no assurance that the Fund's leveraging strategy will be successful. The risk of loss attributable to the Fund's use of leverage is borne by Common Shareholders. The Fund's use of financial leverage can result in a greater decrease in net asset values in declining markets. The Fund's use of financial leverage similarly can magnify the impact of changing market conditions on Common Share market prices.

The Fund may use derivatives, such as interest rate swaps, to fix the effective rate paid on all or a portion of the Fund's leverage, in an effort to lower leverage costs over an extended period. Accordingly, the Fund cannot assure you that the use of leverage will result in a higher yield or return to Common Shareholders. The income benefit from leverage will be reduced to the extent that the difference narrows between the net earnings on the Fund's portfolio securities and its cost of leverage. Because of the costs of leverage, the Fund may incur losses even if the Fund has positive returns, if they are not sufficient to cover the costs of leverage. The Fund's cost of leverage includes interest on borrowing or dividends paid on preferred

shares, if issued in the future as well as any one-time costs (e.g., issuance costs) and ongoing fees and expenses associated with such leverage.

The Fund has issued preferred shares in the past, but does not currently have any preferred shares outstanding. The Fund may issue preferred shares in the future to increase the Fund's leverage.

Furthermore, the amount of fees paid to NFA (which in turn pays a portion of its fees to Spectrum) for investment advisory services will be higher if the Fund uses leverage because the fees will be calculated based on the Fund's Managed Assets; this may create an incentive for NFA and Spectrum to leverage the Fund.

The Fund may invest in the securities of other investment companies, which may themselves be leveraged and therefore present similar risks to those described above.

The Fund seeks to manage the risks associated with its use of financial leverage as described below under "How the Fund Manages Risk: Investment Portfolio and Capital Structure Strategies to Manage Leverage Risk."

See "Risk Factors: Leverage Risk" and "Use of Leverage."

Call Risk. The Fund may invest in preferred securities and debt instruments, which are subject to call risk. Preferred securities and debt instruments may be redeemed at the option of the issuer, or called, before their stated maturity date. In general, an issuer will call its preferred securities or debt instruments if they can be refinanced by issuing new instruments which bear a lower interest rate. The Fund is subject to the possibility that during periods of falling interest rates, an issuer will call its high-yielding preferred securities or debt instruments. The Fund would then be forced to invest the unanticipated proceeds at lower interest rates, resulting in a decline in the Fund's income. See "Risk Factors: Call Risk."

Issuer Credit Risk. Issuers of preferred securities and debt instruments in which the Fund may invest may default on their obligations to pay dividends, principal or interest when due. This non-payment would result in a reduction of income to the Fund, a reduction in the value of a preferred security or debt instrument experiencing non-payment and, potentially, a decrease in the net asset value of the Fund. There can be no assurance that liquidation of collateral would satisfy the issuer's obligation in the event of non-payment of scheduled dividend, interest or principal or that such collateral could be readily liquidated. In the event of bankruptcy of an issuer, the Fund could experience delays or limitations with respect to its ability to realize the benefits of any collateral securing a preferred security or debt instrument. To the extent that the credit rating assigned to a security in the Fund's portfolio is downgraded, the market price and liquidity of such security may be adversely affected. Preferred securities are subordinated borrowings to bonds and debt instruments in a company's capital structure in terms of priority to corporate income and assets upon liquidation, and therefore will be subject to greater credit risk than those debt instruments. See "Risk Factors: Issuer Credit Risk."

Non-U.S. Securities Risk. The Fund may invest up to 35% of its net assets in U.S. dollar denominated securities of non-U.S. issuers offered, traded or

listed in U.S. markets. Investments in securities of non-U.S. domiciled companies involve special risks not presented by investments in securities of U.S. companies, including the following: less publicly available information about non-U.S. domiciled companies or markets due to less rigorous disclosure or accounting standards or regulatory practices; the economies of non-U.S. countries may grow at slower rates than expected or may experience a downturn or recession; the impact of economic, political, social or diplomatic events; possible seizure of a company's assets; and restrictions imposed by non-U.S. countries limiting the ability of non-U.S. domiciled issuers to make payments of principal and/or interest. These risks are more pronounced to the extent that the Fund invests a significant amount of its assets in companies located in one region. To the extent the Fund invests in American Depositary Receipts, the Fund will be subject to many of the same risks as when investing directly in non-U.S. securities. See Risk Factors Non-U.S. Securities Risk.

Inflation Risk. Inflation risk is the risk that the value of assets or income from investments will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of the Common Shares and distributions can decline. See Risk Factors Inflation Risk.

Derivatives Risk, including the Risk of Swaps. The Fund may enter into an interest rate swap or cap transaction to attempt to protect itself from increasing preferred share dividends, if issued in the future, or borrowing interest expenses resulting from increasing short-term interest rates. The Fund's use of derivatives involves risks different from, and possibly greater than, the risks associated with investing directly in the investments underlying the derivatives. If the Fund enters into a derivative transaction, it could lose more than the principal amount invested. Whether the Fund's use of derivatives is successful will depend on, among other things, whether NFA and Spectrum correctly forecast market conditions, liquidity, market values, interest rates and other applicable factors. If NFA and Spectrum incorrectly forecast these and other factors, the investment performance of the Fund will be unfavorably affected.

Like most derivative instruments, the use of swaps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio securities transactions. In addition, the use of swaps requires an understanding by NFA and Spectrum of not only the rate or index, but also of the swap itself. The derivatives market is subject to a changing regulatory environment. It is possible that regulatory or other developments in the derivatives market could adversely affect the Fund's ability to successfully use derivative instruments. See Risk Factors Derivatives Risk, Including the Risk of Swaps, Risk Factors Counterparty Risk, Risk Factors Hedging Risk and the Statement of Additional Information.

Counterparty Risk. Changes in the credit quality of the companies that serve as the Fund's counterparties with respect to derivatives or other transactions supported by another party's credit may affect the value of those instruments. Certain entities that have served as counterparties in the markets for these transactions have recently incurred significant losses and financial hardships, including bankruptcy, as a result of exposure to sub-prime mortgages and other lower quality credit investments that have

experienced recent defaults or otherwise suffered extreme credit deterioration. As a result, such hardships have reduced these entities' capital and called into question their continued ability to perform their obligations under such transactions. By using derivatives or other transactions, the Fund assumes the risk that its counterparties could experience similar financial hardships. In the event of insolvency of a counterparty, the Fund may sustain losses or be unable to liquidate a derivatives position. See *Risk Factors* Counterparty Risk.

Hedging Risk. The Fund's use of derivatives or other transactions to reduce the portfolio's exposure to increases in interest rates involves costs and will be subject to NFA and Spectrum's ability to predict correctly changes in the relationships of such hedge instruments to the Fund's portfolio holdings or other factors. No assurance can be given that NFA or Spectrum's judgment in this respect will be correct. In addition, no assurance can be given that the Fund will enter into hedging or other transactions at times or under circumstances in which it may be advisable to do so. See *Risk Factors* Hedging Risk.

Reliance on Investment Adviser. The Fund is dependent upon services and resources provided by its investment adviser, NFA, and therefore the investment adviser's parent, Nuveen Investments. Nuveen Investments has a substantial amount of indebtedness. Nuveen Investments, through its own business or the financial support of its affiliates, may not be able to generate sufficient cash flow from operations or ensure that future borrowings will be available in an amount sufficient to enable it to pay its indebtedness with scheduled maturities beginning in 2014 or to fund its other liquidity needs. Nuveen Investments' failure to satisfy the terms of its indebtedness, including covenants therein, may generally have an adverse effect on the financial condition of Nuveen Investments.

Anti-Takeover Provisions. The Fund's Declaration of Trust (the *Declaration*) and the Fund's By-laws (the *By-laws*) include provisions that could limit the ability of other entities or persons to acquire control of the Fund or convert the Fund to open-end status. These provisions could have the effect of depriving the Common Shareholders of opportunities to sell their Common Shares at a premium over the then current market price of the Common Shares. See *Certain Provisions in the Declaration of Trust and By-Laws* Anti-Takeover Provisions and *Risk Factors* Anti-Takeover Provisions.

In addition, an investment in the Fund's Common Shares raises other risks, which are more fully disclosed in the *Risk Factors* section of this Prospectus.

Distributions

The Fund pays monthly cash distributions to Common Shareholders at a level rate (stated in terms of a fixed cents per Common Share dividend rate) based on the projected performance of the Fund. The Fund's ability to maintain a level Common Share dividend rate will depend on a number of factors, including dividends payable on preferred shares, if issued in the future. As portfolio and market conditions change, the rate of dividends on the Common Shares and the Fund's dividend policy could change. For each year, the Fund will distribute all or substantially all of its net investment income (after it pays accrued dividends on any outstanding preferred

shares). In addition, the Fund intends to distribute, at least annually, the net capital gain (which is the excess of net long-term capital gain over net short-term capital loss) and taxable ordinary income, if any, to Common Shareholders so long as the net capital gain and taxable ordinary income are not necessary to pay accrued dividends on, or redeem or liquidate, any preferred shares, if issued in the future. You may elect to reinvest automatically some or all of your distributions in additional Common Shares under the Fund's Dividend Reinvestment Plan.

If the Fund does not distribute all of its net capital gain for a taxable year, it will pay federal income tax on the retained gain. As provided under federal tax law, Common Shareholders of record as of the end of the Fund's taxable year will include their attributable share of the retained gain in their income for the year as a long-term capital gain, will be deemed to have paid their proportionate shares of the tax paid by the Fund, and will be entitled to income tax credits or refunds for the tax deemed paid on their behalf by the Fund. The Fund will treat the retained capital gain amount as a substitute for equivalent cash distributions. See [Distributions](#) and [Dividend Reinvestment Plan](#).

The Fund reserves the right to change its distribution policy and the basis for establishing the rate of its monthly distributions at any time.

Custodian and Transfer Agent

State Street Bank and Trust Company serves as custodian and transfer agent of the Fund's assets. See [Custodian and Transfer Agent](#).

Special Tax Considerations

The Fund may invest in preferred securities or other securities the federal income tax treatment of which may not be clear or may be subject to re-characterization by the Internal Revenue Service.

Voting Rights

The Fund has not currently, but may in the future, issue certain types of preferred securities. In that event, such preferred securities, voting as a separate class, would have the right to elect at least two trustees at all times and to elect a majority of the trustees in the event two full years dividends on the preferred shares are unpaid. In each case, the remaining trustees would be elected by holders of Common Shares and preferred shares voting together as a single class. The holders preferred shares would vote as a separate class or classes on certain other matters as required under the Declaration, the Investment Company Act of 1940, as amended (the [1940 Act](#)) and Massachusetts law. See [Description of Shares Preferred Shares Voting Rights](#) and [Certain Provisions in the Declaration of Trust](#).

SUMMARY OF FUND EXPENSES

The purpose of the table below is to help you understand all fees and expenses that you, as a Common Shareholder, would bear directly or indirectly. The table shows the expenses of the Fund as a percentage of the average net assets applicable to Common Shares, and not as a percentage of total assets or Managed Assets.

Shareholder Transaction Expenses (as a percentage of offering price)

Maximum Sales Charge	4.00%
Offering Costs Borne by the Fund(1)	0.17%

**As a Percentage of
Net Assets
Attributable to
Common Shares(2)**

Annual Expenses

Management Fees	1.17%
Interest Payments on Borrowings(3)	0.53%
Other Expenses	0.08%
Acquired Fund Fees and Expenses	0.05%
	<hr/>
Total Annual Expenses	1.83%
	<hr/>

(1) Assuming a Common Share offering price of \$9.35 (the Fund's closing price on the New York Stock Exchange on October 23, 2012).

(2) Stated as percentages of average net assets attributable to Common Shares for the fiscal year ended July 31, 2012.

(3) Interest Payments on Borrowings assumes an annual interest rate of 1.24% on a \$427,000,000 borrowing and assumes no undrawn fee as the fund's amount borrowed is equal to the maximum commitment amount.

The purpose of the table above is to help you understand all fees and expenses that you, as a Common Shareholder, would bear directly or indirectly. See "Management of the Fund" Investment Adviser.

Examples

The following examples illustrate the expenses (including the applicable transaction fees, if any, and estimated offering costs of \$1.70) that a shareholder would pay on a \$1,000 investment that is held for the time periods provided in the table. Each example assumes that all dividends and other distributions are reinvested in the Fund and that the Fund's Annual Expenses, as provided above, remain the same. The examples also assume a 5% annual return.(1)

Example # 1 (At-the-Market Transaction)

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The following example assumes a transaction fee of 1.00%, as a percentage of the offering price.

<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>						
			12.1	2,216.1	48.2	38.2	9.6	
North America	10,195.6	221.9	50.9	878.8	19.1	15.1	1,060.2	
Russia and other countries of the former Soviet Union	1,023.9	22.3	5.1	890.7	19.4	15.4	15.0	
Europe	3,848.0	83.7	19.2	873.1	19.0	15.0	340.7	
Others	2,541.3	55.3	12.7	945.0	20.6	16.3	168.9	
Total	20,038.5	436.1	100.0	5,803.7	126.3	100.0	245.3	

(1) As a percentage of our total revenues.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Active Pharmaceutical Ingredients and Intermediates (APIs)**API geographic mix**

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

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

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

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

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

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

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

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

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

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

Generics

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

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

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

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

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

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

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

Formulations

Revenue Outside India

Revenue by geography (outside India)

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

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

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

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

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

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

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

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

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

Formulations India

Revenues were Rs. 1,743.2 million for the three months ended September 30, 2006, representing an increase of 15.6%, as compared to Rs.1,507.5 million for the three months ended September 30, 2006.

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

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

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

As per August MAT ORG IMS:

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

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

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

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

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

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

Formulations India revenues by key brands

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

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

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

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

Custom Pharmaceutical Services (CPS)

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

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

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

Critical Care and Biotechnology

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

Income statement highlights

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

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

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

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

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

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

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

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

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

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

Results for six months ended September 30, 2006

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

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

(1) As a percentage of our total revenues.

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

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

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

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

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

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

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

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

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

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

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

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

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

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THE OFFERING

American Depositary Shares offered by us	up to 13,500,000 ADSs.
ADSs	Each ADS represents one equity share, par value Rs.5 per share. The ADSs will be evidenced by American Depositary Receipts. See Description of American Depositary Shares.
ADSs outstanding before this offering	21,289,255 ADSs.
ADSs outstanding after this offering	up to 34,789,255 ADSs (assuming no exercise of the underwriters' option to purchase additional ADSs).
Equity shares outstanding before this offering	153,515,604 equity shares.
Equity shares outstanding after this offering	up to 167,015,604 equity shares (assuming no exercise of the underwriters' option to purchase additional ADSs).
Use of proceeds	We estimate that the net proceeds from this offering without exercise of the over-allotment option will be approximately U.S.\$ million. We currently intend to use the net proceeds from the offering under this prospectus for general corporate purposes. These purposes may include geographic expansion, potential acquisitions of, or investments in, companies and technologies that complement our business, capital expenditures for increasing production capacities, addition of new capabilities, additions to our working capital and advances to or investments in our subsidiaries/ joint ventures. Net proceeds may be temporarily invested in bank term deposits prior to use. See Use of Proceeds.
Over-allotment option	We have granted to the underwriters an option to purchase up to 1,500,000 additional ADSs at the public offering price less the underwriting discounts and commission. The underwriters may exercise this option for 30 days from the date of this document solely to cover any over-allotments.
Dividends	<p>Every year our Board of Directors recommends the amount of dividends to be paid to shareholders, if any, based upon conditions then existing, including our earnings, financial condition, capital requirements and other factors. The dividends are paid after approval of shareholders in the general meeting.</p> <p>Holder of ADSs will be entitled to receive dividends payable on equity shares represented by such ADSs. Cash dividends on equity shares represented by ADSs are paid to the Depositary in Indian rupees and are converted by the Depositary into U.S.\$ and distributed, net of depositary</p>

holders of such ADSs. fees, taxes, if any, and expenses, to the

Risk factors See Risk Factors and other information incorporated by reference into this document for a discussion of factors you should carefully consider before deciding to invest in our ADSs.

Listing We will list the ADSs offered by this prospectus supplement and the accompanying prospectus on the NYSE. Our Equity Shares are

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principally traded in India on the National Stock Exchange of India Limited and the Bombay Stock Exchange Limited.

NYSE symbol

RDY

Depository

JPMorgan Chase Bank, N.A.

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

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

	2002(2)	2003(2)	Fiscal Year Ended March 31,		2006	Three Months Ended		
			2004	2005	2006	2005	2006	
					Convenience			
					Translation			
					Into U.S.\$			
	Rs. 16,408.8	Rs. 18,069.8	Rs. 20,081.2	Rs. 19,126.2	Rs. 24,077.2	U.S.\$ 541,304	Rs. 5,573.8	Rs. 13,918
	124.8			345.7	47.5	1,068	13.4	23
	89.1	3.9	22.3	47.5	142.3	3,200	4.2	108
	16,622.7	18,073.7	20,103.5	19,519.4	24,267.0	545,572	5,591.4	14,049
	6,869.0	7,744.9	9,337.3	9,385.9	12,417.4	279,168	2,662.9	7,960
	9,753.7	10,328.8	10,766.2	10,133.5	11,849.6	266,404	2,928.5	6,088
	3,674.1	5,103.2	6,542.5	6,774.6	8,028.9	180,505	1,953.8	3,346
	742.4	1,411.8	1,991.6	2,803.3	2,153.0	48,403	514.7	532
	487.7	419.5	382.9	349.9	419.9	9,439	95.6	387
	(209.0)	70.1	(282.5)	488.8	126.3	2,840	65.7	74

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me)	27.1	0.2	83.2	6.0	(320.4)	(7,202)	36.9	(69
ses	4,722.3	7,004.8	8,717.7	10,422.6	10,407.7	233,988	2,666.7	4,271
ss)	5,031.4	3,324.0	2,048.5	(289.1)	1,441.9	32,418		