

# Ranbaxy Mexico Servicios S.A. DE C.V.

## DIRECTORS REPORT

Your Directors have the pleasure in presenting the Financial Statements for the year ended 31<sup>st</sup> December 2010

<b>Balance Sheet as at December 31, 2010</b>		
	Mexican Pesos	IN INR
<b>Assets</b>		
<b>Current</b>		
Cash & Bank	36,430	131,802
Ranbaxy Mexico S.A. de C.V. – related party	1,458,458	5,276,621
Other Accounts receivable	790,586	2,860,297
Advances/Expenses paid	20,220	73,155
<b>Total Current Assets</b>	<b>2,305,694</b>	<b>8,341,874</b>
Machinery, furniture and equipment, net Fixed assets	1,161,556	4,202,446
<b>Total Assets</b>	<b>3,467,250</b>	<b>12,544,320</b>
<b>Liabilities</b>		
<b>Current</b>		
Commercial Accounts payable	106,549	385,488
Other accounts payable-Income taxes	550,000	1,989,870
Accruals	5,812,397	21,028,933
Employee profit sharing	194,209	702,637
<b>Total Current Liabilities</b>	<b>6,663,155</b>	<b>24,106,928</b>
Employee benefits	1,062,535	3,844,193
Deferred Income taxes	464,269	1,679,700
<b>Total Liabilities</b>	<b>8,189,959</b>	<b>29,630,821</b>
<b>Shareholders funds</b>		
Social Capital	50,000	180,897
Accumulated loss	(4,772,709)	(17,267,399)
<b>Net Shareholders funds (deficit)</b>	<b>(4,722,709)</b>	<b>(17,267,399)</b>
<b>Total Liabilities plus Shareholders funds</b>	<b>3,467,250</b>	<b>12,544,320</b>

## Ranbaxy Mexico Servicios S.A. DE C.V.

<b>Profit and Loss Statement for the year ended December 31, 2010</b>	Mexican Pesos	IN INR
Revenue from Services	33,605,117	121,978,646
Operating Expenses:		
Salaries & related costs	28,572,710	103,712,196
Travel expenses	1,821,771	6,612,599
Non deductible expenses	1,263,725	4,587,024
Telephone	660,619	2,397,891
Recruitment	603,571	2,190,820
Training	254,391	923,379
Depreciation	238,116	864,305
Others	3,479,471	12,629,659
Operating (Loss) / Gain	3,289,257	11,939,227
Other Expenses-Employee profit sharing	(194,209)	(704,933)
Loss before Income taxes	(3,483,466)	(12,644,160)
Income taxes :		
Current	824,974	2,994,461
Deferred	464,269	1,685,187
<b>(Loss)/Gain net</b>	<b>(4,772,709)</b>	<b>(17,323,808)</b>

### **Dividend**

No Dividend have been declared for the year.

### **Changes in Capital Structure**

There were No Changes to the Capital Structure of the Company in 2010.

### **Directors**

The Board constitutes of -

Mr Venkatachalam K , Senior VP & Regional Director-Americas  
Mr Ranjit Kohli, Director Finance, Global Manufacturing & API Business  
Mr Alok Kapoor , Area Director, LATAM  
Mr Giridhar Venugopal, Director Mexico

### **Acknowledgement**

The Directors wish to acknowledge with thanks all Employees and other stakeholders for their valuable sustained support and encouragement and look forward to continued support in the years ahead.

Sd/-  
Alok Kapoor  
Director

Sd/-  
Giridhar Venugopal  
Director

Dated : February 8<sup>th</sup>, 2011



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## Independent Auditors' Report

(Translation from Spanish Language Original)

The Board of Directors and Stockholders  
Ranbaxy México Servicios, S. A. de C. V.:

(Mexican pesos)

We have examined the accompanying balance sheet of Ranbaxy México Servicios, S. A. de C. V. (the Company) as of December 31, 2010, and the related statements of operations, stockholders' equity (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements for the year ended December 31, 2009 are unaudited and are presented exclusively for purposes of comparison, we express no opinion on them. 1

We conducted our audit in accordance with auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are prepared in accordance with Mexican Financial Reporting Standards (FRS). An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the reporting standards used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. 2

As indicated in note 2 to the financial statements, the Company was incorporated on December 31, 2009, with a initial capital of \$50,000 (In Rs. 180,897 ) 3

. The Company is a subsidiary of Ranbaxy México, S. A. de C. V.

As mentioned in note 2, on January 1, 2010, the management of Ranbaxy México, S. A. de C. V. (parent company) transfered its personnel to the Company through employer substitution with which, from that date, all labor rights and obligations will be on the Company. 4

(Continued)

As mentioned in note 3(g), the Company recognizes the labor obligations liability 5  
determined through different bases than the FRS D-3 “Employee benefits”.

The effects of recognition of labor obligations were a debit for \$1,062,535 (In Rs. 3,844,193 )

to administrative expenses and a credit to labor obligations liability for the same amount. As of  
December 31, 2010, it was not possible to determine the effects of the deviation reasonably.

As mentioned in note 3(j), the Company obtained 100% of its revenues from Ranbaxy 6  
México, S. A. de C. V., (parent company) which as of December 31, 2010 and 2009 has  
going concern problems.

The accompanying financial statements were prepared considering the FRS applicable to a 7  
going concern. In the year ended December 31, 2010, the Company suffered a loss of  
\$4,772,709 (In Rs. 17,323,808 )

,and the balance sheet shows an excess of short term liabilities over current  
assets of \$4,357,461(In Rs. 15,765,054 )

. Furthermore as described in note 9(c), the Company has lost all of its  
capital stock and, in accordance with Mexican law this may be cause for its dissolution, at  
the legal request of any interested party with outstanding credits. The financial statements  
neither include adjustments relating to the valuation and classification of assets nor with the  
classification and amount of liabilities that might be necessary should the Company not be  
able to continue as a going concern. The holding company has confirmed the financial  
support to Ranbaxy Mexico Servicios, S. A. de C. V. to continue as going concern.

In our opinion, except for the labor obligations liability recognized through different bases 8  
than FRS as indicated in the sixth paragraph of this report, the financial statements referred to  
above present fairly, in all material respects, the financial position of Ranbaxy México  
Servicios, S. A. de C. V. as of December 31, 2010, and the results of its operations and the  
changes in its stockholders’ equity (deficit) and cash flows for the year then ended, in  
conformity with Mexican Financial Reporting Standards.

KPMG CARDENAS DOSAL, S. C.

Edgar de la Rosa

February 8 2011

**RANBAXY MEXICO SERVICIOS, S. A. DE C. V.**

**Balance Sheets**

31-Dec-10

(With comparative figures for 2009)

Assets	2010		2009		Liabilities and Stockholders' Equity (Deficit)	2010		2009	
	Mexican pesos	In Rs.	Mexican pesos	In Rs.		Mexican pesos	In Rs.	Mexican pesos	In Rs.
Current assets:					Current liabilities:				
Cash and cash equivalents	36,430	131,802	50,000	180,897	Trade accounts payable	106,549	385,488	-	-
Ranbaxy México, S. A. de C. V. (parent company) (note 4)	1,458,458	5,276,621	-	-	Accrued liabilities	2,094,348	7,577,236	-	-
Other accounts receivable (note 5)	790,586	2,860,297	-	-	Accruals (note 7)	3,718,049	13,451,697	-	-
Prepaid expenses	20,220	73,155	-	-	Income taxes payable	550,000	1,989,870	-	-
					Employee statutory profit sharing	194,209	702,637	-	-
Total current assets	2,305,694	8,341,874	50,000	180,897	Total current liabilities	6,663,155	24,106,928	-	-
Transportation equipment, net (note 6)	1,161,556	4,202,446	-	-	Employee benefits (note 3(g))	1,062,535	3,844,193	-	-
					Deferred income taxes (note 8)	464,269	1,679,700	-	-
					Total liabilities	8,189,959	29,630,821	-	-
					Stockholders' equity (deficit) (note 9):				
					Capital stock	50,000	180,897	50,000	180,897
					Deficit	(4,772,709)	(17,267,399)	-	-
					Total stockholders' equity (deficit)	(4,722,709)	(17,086,501)	50,000	180,897
					Commitment and contingent liabilities (note 10)				
	<b>3,467,250</b>	<b>12,544,320</b>	<b>50,000</b>	<b>180,897</b>		<b>3,467,250</b>	<b>12,544,320</b>	<b>50,000</b>	<b>180,897</b>

Conversion rate against Indian Rupee for the year 2010 and 2009 have been used at Closing rate for items relating to Balance Sheet account. 1 Mexican Peso= 0.2764 (Divisible Factor)

0.2764

0.2764

See accompanying notes to financial statements.

**RANBAXY MEXICO SERVICIOS, S. A. DE C. V.**

Statement of Operations  
Year ended December 31, 2010

<b>Particulars</b>	<b>Mexican pesos</b>	<b>In Rs.</b>
Revenue from services (note 4)	33,605,117	121,978,646
Operating expenses (note 4):		
Salaries and related costs	28,572,710	103,712,196
Travel expenses	1,821,771	6,612,599
Not deductible	1,263,725	4,587,024
Telephone	660,619	2,397,891
Recruitment	603,571	2,190,820
Training	254,391	923,379
Depreciation	238,116	864,305
Other	3,479,471	12,629,659
Total operating expenses	36,894,374	133,917,873
Other expenses - Employee statutory profit sharing	(194,209)	(704,933)
Loss before income taxes	(3,483,466)	(12,644,160)
Income taxes (note 8):		
Current	824,974	2,994,461
Deferred	464,269	1,685,187
Total income taxes	1,289,243	4,679,648
Net loss	(4,772,709)	(17,323,808)

Conversion rate against Indian Rupee for the year 2010 and 2009 have been used at Average rate for items relating to Profit and Loss account. 1 Mexican Peso = 0.2755 (Divisible Factor)

0.2755

See accompanying notes to financial statements.

**RANBAXY MEXICO SERVICIOS, S. A. DE C. V.**

## Statement of Stockholders' Equity (Deficit)

Year ended December 31, 2010

(With comparative figures for 2009)

**Mexican pesos**

<b>Particulars</b>	<b>Capital stock</b>	<b>Deficit</b>	<b>Total stockholders equity (deficit)</b>
Initial capital (note 9(a))	50,000	-	50,000
Balances as of December 31, 2009	50,000	-	50,000
Comprehensive loss (note 9(b))	-	-4,772,709	-4,772,709
Balances as of December 31, 2010	50,000	-4,772,709	-4,722,709

**In Rs.**

<b>Particulars</b>	<b>Capital stock</b>	<b>Deficit</b>	<b>Total stockholders equity (deficit)</b>
Initial capital (note 9(a))	180,897	-	180,897
Balances as of December 31, 2009	180,897	-	180,897
Comprehensive loss (note 9(b))	-	-17,267,399	-17,267,399
Balances as of December 31, 2010	180,897	-17,267,399	-17,086,501

Conversion rate against Indian Rupee for the year 2010 and 2009 have been used at Closing rate for items relating to Balance Sheet account. 1 Mexican Peso= 0.2764 (Divisible Factor)

0.2764

See accompanying notes to financial statements.

**RANBAXY MEXICO SERVICIOS, S. A. DE C. V.**

Statement of Cash Flows  
Year ended December 31, 2010  
(With comparative figures for 2009)

Particulars	2,010		2,009	
	Mexico pesos	In Rs.	Mexico pesos	In Rs.
Cash flows from operating activities:				
Loss before income taxes deferred	(3,483,466)	(12,602,988)	-	-
Items relating to investing activities- Depreciation	238,115	861,487	-	-
Subtotal	(3,245,351)	(11,741,501)	-	-
Parent company	(1,458,458)	(5,276,621)	-	-
Other accounts receivable	(790,586)	(2,860,297)	-	-
Prepaid expenses	(20,220)	(73,155)	-	-
Trade accounts payable	106,549	385,488	-	-
Accrued liabilities	2,094,348	7,577,236	-	-
Accruals	3,718,049	13,451,697	-	-
Income taxes paid	(274,974)	(994,841)	-	-
Employee statutory profit sharing	194,209	702,637	-	-
Change in employees' benefits	1,062,535	3,844,193	-	-
Net cash provided by operating activities	1,386,101	5,014,837	-	-
Cash flows from investment activities - Capital expenditures	(1,399,671)	(5,063,933)	-	-
Cash flows from financing activities - Cash in flow from initial capital	-	-	50,000	180,897
Net (decrease) increase in cash and cash equivalents	(13,570)	(49,096)	50,000	180,897
Cash and cash equivalents:				
At beginning of year	50,000	180,897	-	-
At the end of year	36,430	131,802	50,000	180,897

**Note: Conversion rate used against Indian Rupee for the year 2010 and 2009 are as under:**

**0.2764**

- i) Items relating to Profit and Loss account at Average rate 1 Mexican Peso = 0.2755**
- i) Items relating to Balance Sheet at Closing rate 1 Mexican Peso = 0.2764**

See accompanying notes to financial statements.

# RANBAXY MEXICO SERVICIOS, S. A. DE C. V.

## Notes to Financial Statements

December 31, 2010

(Mexican pesos)

*These financial statements have been translated from the Spanish language original and for the convenience of foreign/English-speaking readers.*

### **(1) Financial statement authorization and presentation-**

On February 8, 2011, Giridhar Venugopal Mandapati, General Director, authorized the issuance of the accompanying financial statements and related notes thereto.

In accordance with the General Corporations Law and the bylaws of the Company, the stockholders are empowered to modify the financial statements after issuance. The accompanying financial statements will be submitted to the next Stockholders' Meeting for approval.

The accompanying financial statements have been prepared in accordance with Mexican Financial Reporting Standards (FRS) in effect as of the balance sheet date, except for what is mentioned in notes 3(g).

The aforementioned financial statements are presented in Mexican pesos (reporting currency), which is the same as the recording currency and the functional currency.

Given that the Company is a services entity, ordinary costs and expenses are presented based on their nature, as the information so reported is clear.

### **(2) Constitution, description of business and significant transaction-**

#### ***Constitution-***

Ranbaxy México Servicios, S. A. de C. V. (the company) was incorporated on December 31, 2009, with a initial capital of \$50,000 [ IN INR Rs. 180,897].

#### ***Description of business-***

The principal activity of the Company is to provide administrative services, human resources, financial, accounting, marketing, sales and product promotion. The Company is a subsidiary of Ranbaxy México, S. A. de C. V. with whom it performs the operations described in note 4.

(Continued)

**RANBAXY MEXICO SERVICIOS, S. A. DE C. V.**

## Notes to Financial Statements

(Mexican pesos)

***Significant transaction-******Transfer of employees-***

On January 1, 2010, Ranbaxy México, S. A. de C. V. transfers its personnel to the Company through employer substitution with which, from that date, all labor rights and obligations will be the Company.

**(3) Summary of significant accounting policies-**

The preparation of financial statements requires management to make a number of estimates and assumptions that affect to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of transportation equipment and accruals related to employee benefits. Actual results could differ from those estimates and assumptions.

For purposes of disclosure, “pesos” or “\$” means Mexican pesos, and “dollars” or “US\$” means U.S. dollars.

Significant accounting policies applied in the preparation of the accompanying financial statements follow:

**(a) Recognition of the effects of inflation-**

Due to the Company was incorporated on December 31, 2009, the accompanying financial statements have been prepared on the historical cost basis.

**(b) Cash and cash equivalents-**

Cash and cash equivalents consist of checking accounts.

**(c) Accounts receivable-**

Accounts receivable are reported at fair value, net of provisions for returns and discounts and the allowance for doubtful accounts.

(Continued)

**RANBAXY MEXICO SERVICIOS, S. A. DE C. V.**

## Notes to Financial Statements

(Mexican pesos)

**(d) *Transportation equipment-***

Transportation equipment are recorded at the acquisition cost. Depreciation on transportation equipment is calculated on the straight-line method over the estimated useful lives of the assets as determined by the Company's management. The annual depreciation rate is 25%.

Minor repairs and maintenance costs are expensed as incurred.

**(e) *Impairment of transportation equipment-***

The Company evaluates periodically the net carrying amount of transportation equipment, to determine whether there is an indication that the carrying amount exceeds the recoverable amount. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to future net revenues reasonably expected to be generated by the asset. If the net carrying amount of the asset exceeds the recoverable amount, the Company records the necessary provisions.

**(f) *Accruals-***

Based on management's estimates, the Company recognizes accruals for present obligations where the transfer of assets or the rendering of services is virtually inevitable and arises as a consequence of past events.

**(g) *Employee benefits-***

As of December 31, 2010, the Company recognized liabilities for seniority premiums and termination benefits in accordance with generally accepted accounting principles in the United States of America, which differ from the Mexican Financial Reporting Standards.

**(h) *Income Tax (IT), Flat Rate Business Tax (IETU) and Employee Statutory Profit Sharing (ESPS)-***

IT and ESPS payable for the year are determined in conformity with the tax provisions in effect.

(Continued)

**RANBAXY MEXICO SERVICIOS, S. A. DE C. V.**

## Notes to Financial Statements

(Mexican pesos)

Deferred IETU and ESPS are accounted for under the asset and liability method. Deferred taxes and ESPS assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and in the case IETU, for operating loss carry forwards and other recoverable tax credits. Deferred tax and ESPS assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax and ESPS assets and liabilities of a change in tax rates is recognized in the income statement in the period that includes the enactment date.

**(i) Revenue recognition-**

The Company recognizes revenue from services when the services are rendered.

**(j) Business and credit concentration-**

The total of the revenues from services was obtained from Ranbaxy México, S. A. de C. V. (parent company) (note 4).

**(k) Contingencies-**

Liabilities for loss contingencies are recorded when it is probable that a liability has been incurred and the amount thereof can be reasonably estimated. When a reasonable estimation cannot be made, disclosure is provided in the notes to the financial statements. Contingent revenues, earnings or assets are not recognized until realization is assured.

**(4) Related-party transactions and balances-**

Transaction carried out with Ranbaxy México, S. A. de C. V. (parent company) during the year ended December 31, 2010, was a revenue from services for \$33,605,117 [ IN INR 121,978,646]..

The Company has entered into services agreement with Ranbaxy México, S. A. de C. V. (parent company), under which the Company provide administrative services, human resources, financial, accounting, marketing, sales and product promotion, necessary for the parent company's operations. These agreement has a duration of 36 months from January 1, 2010. The agreement requires to the parent company to cover a payment to the cost of services plus a monthly profit margin.

(Continued)

**RANBAXY MEXICO SERVICIOS, S. A. DE C. V.**

## Notes to Financial Statements

(Mexican pesos)

The account payable to Ranbaxy México, S. A. de C. V. for \$1,458,458 [ IN INR 5,276,621] is due to administrative services aforementioned.

**(5) Other accounts receivable-**

Other accounts receivable are comprised as follows:

	<b>2010</b>	<b>2010 [ IN INR]</b>
Recoverable Flat Rate Business Tax	\$ 491,686	1,778,893
Receivables from employees	231,261	836,690
Advance payment	<u>67,639</u>	<u>244,714</u>
	\$ 790,586	2,860,297
	=====	=====

**(6) Transportation equipment-**

Original value of transportation equipment amounts to \$1,399,671 [ IN INR 5,063,933] vas of December 31, 2010, which its accumulated depreciation amounts to \$238,115 [ IN INR 861,487].

**(7) Accruals-**

Accruals include the following:

	<b><u>Christmas bonus</u></b>	<b><u>Bonus</u></b>	<b><u>Vacations</u></b>	<b><u>Total</u></b>
Increases recorded in the income statement	\$ 2,192,182	3,861,335	684,667	6,738,084
Payments	<u>2,192,182</u>	<u>685,748</u>	<u>142,205</u>	<u>3,020,135</u>
Balances at December 31, 2010	\$ -	3,175,587	542,462	3,718,049
	=====	=====	=====	=====

(Continued)

	<b>Christmas <u>bonus</u></b>	<b><u>Bonus</u></b>	<b>IN INR <u>Vacations</u></b>	<b><u>Total</u></b>
Increases recorded in the income statement	7,931,194	13,970,098	2,477,088	24,378,017
Payments	<u>7,931,194</u>	<u>2,480,999</u>	<u>514,490</u>	<u>10,926,682</u>
Balances at December 31, 2010	- =====	11,489,099 =====	1,962,598 =====	13,451,697 =====

**RANBAXY MEXICO SERVICIOS, S. A. DE C. V.**

## Notes to Financial Statements

(Mexican pesos)

**(8) Tax on earnings (Income tax (IT) and flat rate business tax (IETU))-**

Under the current tax legislation, companies must pay the greater of their IT or IETU. If IETU is payable, the payment will be considered final i.e. not subject to recovery in subsequent years. In accordance with the reforms effective as of January 1, 2010, the IT rate for fiscal years 2010 to 2012 is 30%, for 2013 the rate shall be 29% and for 2014 and thereafter, the rate is 28%. The IETU rate is 17% for 2009 and 17.5% for 2010 and thereafter.

Because management estimates that the tax payable in future years will be IETU, deferred tax effects as of December 31, 2010 have been recorded on the IETU basis.

The income tax expense is as follows:

	<b><u>2010</u></b>
Current IT	\$ 824,974
Deferred IETU	<u>464,269</u>
	\$ 1,289,243
	=====
	<b><u>2010 [ IN INR ]</u></b>
Current IT	Rs. 2,994,461
Deferred IETU	<u>Rs. 1,685,187</u>
	Rs. 4,679,648
	=====

At December 31, 2010, the Company generated a basis for ESPS of \$ 1,942,090 [ In Inr 7,026,375] , which at the rate of 10% is an ESPS of the exercise of \$ 194,209 [702,637]. Also during the year ended on that date there were no significant temporary differences that generated deferred ESPS.

Income tax (benefit) expense attributable to loss before income taxes differed from the amounts computed by applying the Mexican statutory rate of 30% IT for 2010 to loss, as a result of the items presented below:

	<b><u>IT</u></b>
Computed tax benefit	\$ (1,045,040)
Increase resulting from:	
Not deductible expenses	379,088
Accruals not deductible for IT	1,492,438

Deferred IETU	464,269
Others	<u>(1,512)</u>
IT expense	\$ 1,289,243 =====

IN INR

**IT**

Computed tax benefit	Rs. (3,783,249)
Increase resulting from:	
Not deductible expenses	1,376,000
Accruals not deductible for IT	5,417,198
Deferred IETU	464,269
Others	<u>(5,488)</u>
IT expense	Rs. 4,679,648 =====

(Continued)

**RANBAXY MEXICO SERVICIOS, S. A. DE C. V.**

## Notes to Financial Statements

(Mexican pesos)

The tax effects of temporary differences that give rise to significant portions of the deferred IETU assets and liabilities, at December 31, 2010, are as follows:

		<b><u>IETU</u></b>
Deferred tax assets - Suppliers	\$	<u>16,074</u>
Deferred tax liabilities:		
Accounts receivable		231,862
Transportation equipment		244,942
Prepaid expenses		<u>3,539</u>
Total gross deferred tax liabilities		<u>480,343</u>
Net deferred tax liabilities	\$	464,269
		=====
		<b><u>IN INR</u></b>
		<b><u>IETU</u></b>
Deferred tax assets - Suppliers	Rs.	<u>58,155</u>
Deferred tax liabilities:		
Accounts receivable		838,864
Transportation equipment		866,187
Prepaid expenses		<u>12,804</u>
Total gross deferred tax liabilities		<u>1,737,855</u>
Net deferred tax liabilities	Rs.	1,679,700
		=====

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities projected future taxable income, and tax planning strategies in making this assessment.

**(9) Stockholders' equity (deficit)-**

The principal characteristics of stockholders' equity (deficit) are described below:

**(a) Structure of capital stock-**

Dated December 31, 2009, the Company was incorporated with an initial capital of \$50,000 [ IN INR 180,897], represented by 500 ordinary shares with par value of 100 pesos each [ IN INR 362 each], which corresponds to the fixed portion of which Ranbaxy México, S. A. de C. V. suscribed and paid 99.99%.

**(b) *Comprehensive loss-***

The comprehensive loss reported on the statements of stockholders' equity (deficit), represents the result of the Company's total activities during the year, and it is formed by the net loss.

**(c) *Restrictions on stockholders' equity (deficit)-***

Stockholder contributions restated as provided for by the tax law, may be refunded to stockholders tax-free, to the extent that such contributions equal or exceed stockholders' equity (deficit).

(Continued)

**RANBAXY MEXICO SERVICIOS, S. A. DE C. V.**

## Notes to Financial Statements

(Mexican pesos)

No dividends may be paid while the Company has a deficit.

In the year ended December 31, 2010, the Company suffered a loss of \$4,772,709 [ IN INR 17,323,808] and the balance sheets shows an excess of short term liabilities over current assets of \$4,357,461 [ IN INR 15,765,054] . Furthermore, the Company has lost all of its capital stock and, in accordance with Mexican law this may be cause for its dissolution, at the legal request of any interested party with outstanding credits. The financial statements neither include adjustments relating to the valuation and classification of assets nor with the classification and amount of liabilities that might be necessary should the Company not be able to continue as a going concern. The holding company has confirmed the financial support to Ranbaxy México Servicios, S. A. de C. V. to continue operating until it can generate its own cash flows.

**(10) Commitments and contingent liabilities-**

- (a) There is a contingent liability arising from the labor obligations mentioned in note 3(g).
- (b) In accordance with Mexican tax law, the tax authorities are entitled to examine transactions carried out during the five years prior to the most recent income tax return filed.
- (c) In accordance with the Income Tax Law, companies carrying out transactions with related parties are subject to certain requirements as to the determination of prices, which should be similar to those that would be used in arm's-length transactions.

Should the tax authorities examine the transactions and reject the related-party prices, they could assess additional taxes plus the related inflation adjustment and interest, in addition to penalties of up to 100% of the omitted taxes.

**(11) Recently issued financial reporting standards-**

The Mexican Board for Research and Development of Financial Reporting Standards (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera or CINIF) has issued the FRS and Revision listed below in the next page.

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**RANBAXY MEXICO SERVICIOS, S. A. DE C. V.**

## Notes to Financial Statements

(Mexican pesos)

**FRS C-5 “Prepayments”**– FRS C-5 is effective beginning January 1, 2011, with retrospective application, supersedes Bulletin C-5, and includes primarily the following changes:

- Advances for purchase of inventories (current assets) or property, plant and equipment and intangible assets (non-current assets), among others, must be reported under prepayments provided the benefits and risks inherent in the assets to be acquired or the services to be received have not yet been transferred to the entity. Furthermore, prepaid expenses must be reported based on the nature of the item to be acquired, either under current assets or non-current assets.
- When an impairment loss on the value of prepayments occurs, the unrecoverable amount must be reported in the income statement. Additionally, if the necessary conditions exist, the impairment effect may be reversed and recorded on the income statement for the related future period.
- Among other things, the following must be disclosed in notes to financial statements: breakdown of prepayments, accounting policies for recognition and impairment losses, as well as relevant reversal of impairments.

Management estimates that the effects of adoption of this new FRS will be immaterial.

**FRS C-6 “Property, plant and equipment”**- FRS C-6 is effective beginning January 1, 2011, except for changes arising from segregation into the components of property, plant and equipment items having a clearly different useful life, which will be effective for fiscal years beginning on or after January 1, 2012. The accounting changes resulting from the initial application of this FRS must be prospectively recognized. The principal changes with respect to the superseded Bulletin include the following:

- The treatment for asset exchanges based on the economic substance is included.
- The bases for determination of the residual value of a component are added.
- The requirement to assign an appraised value to property, plant and equipment acquired at no cost or at an inadequate cost is eliminated.

(Continued)

**RANBAXY MEXICO SERVICIOS, S. A. DE C. V.**

## Notes to Financial Statements

(Mexican pesos)

- Depreciation for components representative of a property, plant and equipment item is mandatory, independently of the depreciation of the rest of the item as if it were a single component.
- Depreciation of idle components must continue, unless depreciation is determined based on the activity.

Management estimates that the effects of adoption of this new FRS will be immaterial.

**FRS C-18 “Property, plant and equipment retirement obligations”** – FRS C-18 is effective beginning January 1, 2011, and primarily provides for the following:

- Requirements that must be considered for valuation of a (Fixed Asset) component retirement obligation.
- Requirement to recognize retirement obligations as a provision that increases the acquisition cost of a component.
- How changes in the valuation of retirement obligations (provisions) resulting from revisions to the cash flows, the periodicity for settlement and the suitable discount rate to be used must be recognized for accounting purposes.
- Use of a suitable discount rate on estimated future cash flows, incorporating the cost of money and the entity’s credit risk.
- Use of the expected present value technique to determine the best estimate for retirement obligations.
- Disclosures that are to be made in case an entity has component retirement obligation.

Management estimates that the effects of adoption of this new FRS will be immaterial.

**2011 FRS Revision-**

In December 2010, the Mexican Board for Research and Development of Financial Reporting Standards (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera or CINIF) issued the document referred to as “2011 FRS Revisions”, which contains precise modifications to some FRS. The modification that bring about accounting change is listed in the next page.

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**RANBAXY MEXICO SERVICIOS, S. A. DE C. V.**

## Notes to Financial Statements

(Mexican pesos)

**Bulletin C-3 “Accounts receivable”** - Recognition of interest income on accounts receivable when accrued is established, provided the relevant amount is reliably valued and likely to be recovered. Furthermore, it is provided that interest income on accounts receivable unlikely to be recovered must not be recognized. These revisions are effective beginning January 1, 2011 y are retrospectively applicable.

Management estimates that the effects of adoption of this revision will be immaterial.

Note: Conversion Rate used against Indian Rupee for the year 2010 are as under:

- i) Items relating to Profit and Loss account at Average Rate : 1 Mexican pesos = 0.2755
- ii) Items Relating to Balance Sheet at Clsosing Rate : 1 Mrxican Pesos = 0.2764.