

# Ranbaxy Farmacêutica Ltda, BRAZIL

## Management Report

Your management has the pleasure in presenting the Financial Statements for the year ended December 31,2010.

amount in Brazilian Reals

General Balance St December 31,2010					
	IN Brazilian	IN INR		IN Brazilian	IN INR
<b>Current Assets</b>			<b>Current Liabilities</b>		
Cash and Cash Equivalents	5,531,025	149,084,235	Loans payable	-	-
Trade Securities Receivables	20,868,437	562,491,566	Loans payable intercompany	4,210,552	113,491,975
Investories	9,480,317	255,534,143	Trade amounts payable intercompany	15,809,332	426,127,537
Recoverable Taxes	1,285,120	34,639,353	Accounts payable to suppliers	762,456	20,551,369
Others Amount receivables	602,056	16,227,937	Labor and taxes payments	571,815	15,412,816
Related parties receivables	-	-	other accounts payable	8,498,248	229,063,279
Prepaid Expenses	99,744	2,688,516	Provision for current Tax	614,498	16,563,277
Deferred Tax ST	5,331,772	143,713,530			
		-			
<b>Total Current Assets</b>	<b>43,198,471</b>	<b>1,164,379,280</b>	<b>Total Current Liabilities</b>	<b>30,466,900</b>	<b>821,210,254</b>
<b>Non Current Assets</b>			<b>Non Current Assets</b>		
Judicial Deposits	-	-	Accrual for contingencies	1,979,742	53,362,331
Deferred Tax LT	4,793,819	129,213,447			
Property Plant and Equipments	5,066,380	136,560,117			
Intangible	334,165	9,007,136			
		-			
<b>Total Non Current Assets</b>	<b>10,194,364</b>	<b>274,780,700</b>	<b>Total Non Current Liabilities</b>	<b>1,979,742</b>	<b>53,362,331</b>
			Shareholders equity	17,366,914	468,110,889
			REALIZABLE PROFITS RESERVE	3,579,278	96,476,508
			<b>Shareholders' Funds</b>	<b>20,946,192</b>	<b>564,587,398</b>
<b>Total Assets</b>	<b>53,392,835</b>	<b>1,439,159,980</b>	<b>Total Liabilities</b>	<b>53,392,835</b>	<b>1,439,159,983</b>

## Ranbaxy Farmacêutica Ltda, BRAZIL

amount in Brazilian Reals

<b>Profit and Loss Accounts</b>			
Operating Revenues	Amount in Brazilian Reals	Amount in INR	
Revenue from sale of Goods	104,977,686	2,755,319,835	
Revenues from services rendered	-	-	
(-) Taxes sales and services and sales return	- 13,981,223	- 366,961,238	
<b>(=) Net Operating Revenues</b>	<b>90,996,463</b>	<b>2,388,358,598</b>	
(-) Cost of goods sold	- 40,937,087	- 1,074,464,215	
<b>(=) Gross Income</b>	<b>50,059,376</b>	<b>1,313,894,383</b>	
Operating expenses and revenues		-	
General and administrative expenses	- 36,265,035	- 951,838,194	
Financial expenses	- 491,205	- 12,892,523	
Financial revenues	1,940,611	50,934,666	
Other operating income	219,771	5,768,271	
(=) Net Income before tax provisions	15,463,518	405,866,603	
(-) Income and social contribution taxes	- 5,334,192	- 140,005,040	
(+) Income and social contribution taxes - Deferred	214,140	5,620,469	
(=) Net Income for the year	10,343,465	271,482,032	

Note: Operating expenses and revenues include BRL 8.405.459,28 (IN INR 220,615,729) towards Forex loss for the full year 2009.

### **Dividend**

No dividend have been declared for the year

### **Changes in Capital Structure**

There was no change in the Company's capital structure in 2010.

Ranbaxy Neitherlands B.V. has 100% share holding

### **Directors**

The Board constitutes of: **Mr. Krishnan Venkatachalam** - Regional Director, USA,

**Mr. Alok Shubkar Kapoor** - Regional Director - Latim America ; **Mr. Sethuraman Viswanathan** - Regional Finance Director - Latim America

### **Acknowledgement**

The Directors command the continued commitment and dedication of employees at all levels. The Directors also wish to acknowledge with thanks all other shareholders for their valuable sustained and encouragement and they look forward to receiving similar support and encouragement in the year ahead.

Sd/-

Sethuraman Viswanathan  
Regional Director Finance

Sd/-

Alok Shubhkar Kapoor  
Head Office - RFL

Dated : March 23, 2011

# Independent auditors' report

To  
The Directors  
Ranbaxy Farmacêutica Ltda.  
São Paulo - SP

We have examined the financial statements of Ranbaxy Farmacêutica Ltda. ("Ranbaxy"), which include the balance sheet at December 31, 2010 and the related statements of income, changes in quotaholders' equity and cashflows for the year then ended and a summary of the main accounting practices and other explanatory information to the financial statements.

## **Management's responsibility for the financial statements**

Ranbaxy Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting practices adopted in Brazil and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## **The responsibility of the independent auditors**

Our responsibility is to express an opinion on these financial statements based on our audit, conducted in accordance with Brazilian and International Auditing Standards. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence for the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risk of material misstatement in the financial statements, whether due to fraud or error. In making those risk assessments we considers internal control relevant to the preparation and fair presentation of the Ranbaxy's financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Ranbaxy's internal control. An audit also includes evaluating the appropriateness of the accounting practices used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion

## **Opinion**

In our opinion, the aforementioned financial statements give a true and fair view of the financial position of Ranbaxy Farmacêutica Ltda. as of December 31, 2010, its financial performance, and its cash flows for the year then ended, in conformity with accounting practices adopted in Brazil.

São Paulo, March 23, 2011

KPMG Auditores Independentes  
CRC 2SP014428/O-6

Sd/-  
Wagner Bottino  
Accountant CRC 1SP196907/O-7

# Ranbaxy Farmacêutica Ltda.

## Balance sheets

December 31, 2010 and 2009

(In thousands of Reais)

Asset	Note	2010	2010	2009	2,009	Liabilities	Note	2,010	2,010	2,009	2,009
			IN INR		IN INR				IN INR		IN INR
			In thousands		In thousands				In thousands		In thousands
<b>Current assets</b>						<b>Current liabilities</b>					
Cash and cash equivalent	4	5,531	149,084	4,073	109,784	Loans	9		0	3,030	81,671
Trade accounts receivable	5	20,869	562,507	22,009	593,235	Taxes payable	10	1,279	34,474	1,745	47,035
Inventories	6	9,480	255,526	11,539	311,024	Salaries and vacation pay		779	20,997	652	17,574
Recoverable taxes		1,285	34,636	463	12,480	Related parties	11	20,019	539,596	30,760	829,111
Deferred taxes	7	0	0	4,365	117,655	Others Provision	12	7,014	189,057	2,342	63,127
Related parties	12	0	0	749	20,189	Other accounts payable		762	20,539	1,409	37,978
Other accounts receivable		702	18,922	539	14,528	Income tax and social contribution payable		614	16,550	384	10,350
					0			<u>30,467</u>	<u>821,213</u>	<u>40,322</u>	<u>1,086,846</u>
		<u>37,867</u>	<u>1,020,674</u>	<u>43,737</u>	<u>1,178,895</u>						
					0	<b>Noncurrent liabilities</b>					
<b>Noncurrent assets</b>					0	Provision for contingencies	13	1,980	53,369	1,653	44,555
Deferred taxes	7	10,126	272,938	5,319	143,369				0		
			0		0				0		
		10,126	272,938	5,319	143,369	<b>Shareholders' equity</b>					
			0		0	Capital	14	17,367	468,113	17,367	468,113
			0		0	Accumulated losses		0	0	(6,764)	(182,318)
<b>Property, plant and equipment</b>	8	5,066	136,550	3,274	88,248	Profit Reserve		3,579	96,469		
			0		0			<u>20,946</u>	<u>564,582</u>	<u>10,603</u>	<u>285,795</u>
<b>Intangible assets</b>		334	9,003	248	6,685				0		0
			0		0				0		0
		15,526	418,491	8,841	238,302				0		0
			0		0				0		0
			0		0				0		0
<b>Total assets</b>		<u>53,393</u>	<u>1,439,164</u>	<u>52,578</u>	<u>1,417,197</u>	<b>Total liability and shareholders' equity</b>		<u>53,393</u>	<u>1,439,164</u>	<u>52,578</u>	<u>1,417,197</u>

See the accompanying notes to the financial statements.

# Ranbaxy Farmacêutica Ltda.

## Statements of income

Years ended December 31, 2010 and 2009

(In thousands of Reais, except net income per quotas)

	Note	2010	2010	2009	2009
			IN INR		IN INR
			In thousands		In thousands
<b>Revenues</b>					
Sale of goods		104,978	2,755,328	99,354	2,607,717
Services rendered		<u>117</u>	<u>3,071</u>	<u>74</u>	<u>1,942</u>
<b>Deductions</b>					
Sales taxes	10	(10,979)	(288,163)	(11,878)	(311,759)
Returns and discounts		<u>(3,002)</u>	<u>(78,793)</u>	<u>(2,098)</u>	<u>(55,066)</u>
<b>Net revenues</b>		91,114	2,391,444	85,452	2,242,835
<b>Cost of goods sold and services rendered</b>		<u>(40,937)</u>	<u>(1,074,462)</u>	<u>(42,760)</u>	<u>(1,122,310)</u>
<b>Gross profit</b>		50,177	1,316,982	42,692	1,120,525
<b>Operating (expenses) income</b>					
Selling expenses		(14,806)	(388,609)	(14,294)	(375,171)
Administrative and general expenses		(21,459)	(563,228)	(21,426)	(562,362)
Financial expenses	15	(491)	(12,887)	(1,213)	(31,837)
Financial income	15	1,941	50,945	9,249	242,756
Other operating income (expenses)	16	<u>101</u>	<u>2,651</u>	<u>1,020</u>	<u>26,772</u>
<b>Net income (loss) before income and social contribution taxes</b>		15,463	405,853	16,028	420,682
Income and social contribution taxes - Current	7	(5,334)	(140,000)	(3,106)	(81,522)
Income and social contribution taxes - Deferred	7	<u>214</u>	<u>5,617</u>	<u>9,911</u>	<u>260,131</u>
<b>Net income (loss) for the year</b>		<u>10,343</u>	<u>271,470</u>	<u>22,833</u>	<u>599,291</u>
<b>Net income (loss) per lot of a thousand quotas - R\$</b>		<u>0.80</u>	<u>21.00</u>	<u>1.76</u>	<u>46.20</u>
<b>Number of quotas at year end</b>		<u>12,971,088</u>	<u>340,448,504</u>	<u>12,971,088</u>	<u>340,448,504</u>

See the accompanying notes to the financial statements.

## Ranbaxy Farmacêutica Ltda.

### Statements of changes in stockholders' equity

Years ended December 31, 2010 and 2009

(In thousands of Reais)

	Capital	Profit Reserve	Accumulated losses	Total
<b>Balances at January 1st, 2009</b>	17,367	0	(29,597)	(12,230)
Net income for the year		0	22,833	22,833
Capital increase	<u>0</u>	<u>0</u>	<u>-</u>	<u>0</u>
<b>Balances at December 31, 2009</b>	17,367	0	(6,764)	10,603
Net income for the year		3,579	6,764	10,343
<b>Balances at December 31, 2010</b>	<u>17,367</u>	<u>3,579</u>	<u>0</u>	<u>20,946</u>

*IN INR in thousands*

	Capital	Profit Reserve	Accumulated losses	Total
<b>Balances at January 1st, 2009</b>	468,113	0	(797,763)	(329,650)
Net income for the year	-	0	615,445	615,445
Capital increase	<u>0</u>	<u>0</u>	<u>-</u>	<u>0</u>
<b>Balances at December 31, 2009</b>	468,113	0	(182,318)	285,795
Net income for the year		96,469	182,318	278,787
<b>Balances at December 31, 2010</b>	<u>468,113</u>	<u>96,469</u>	<u>0</u>	<u>564,582</u>

See the accompanying notes to the financial statements.

## Statements of cash flows - Indirect method

Years ended on December 31, 2010 and 2009

(In thousands of Reais)

	2010	2010	2009	2009
	IN INR		IN INR	
	In thousands		In thousands	
<b>Cash flows from operating activities</b>				
<b>Net income (loss) before income and social contribution taxes</b>	15,463	416,782	16,027	431,995
Adjustments for:				
Depreciation and amortization	864	23,288	826	22,264
Provisions for contingencies	642	17,305	419	11,294
Unrealized exchange losses/gains	## (120)	(3,235)	(262)	(7,062)
Gain on the sale of fixed assets	(19)	(512)	(44)	(1,186)
	<u>16,830</u>	<u>453,628</u>	<u>16,966</u>	<u>457,305</u>
<b>Changes in assets</b>				
Increase in accounts receivable	1,140	30,728	(2,467)	(66,496)
Decrease (increase) in inventories	2,059	55,499	5,565	150,000
Decrease (increase) in other taxes recoverable	(822)	(22,156)	276	7,439
Increase in related parties	749	20,189	(734)	(19,784)
Decrease (increase) in other credits	(163)	(4,394)	(155)	(4,178)
Increase in judicial deposits	(297)	(8,005)	(62)	(1,671)
<b>Changes in liabilities</b>				
(Decrease) Increase in related parties	(10,741)	(289,515)	(12,470)	(336,119)
Increase in taxes and social security taxes collectable	(467)	(12,588)	(29)	(782)
Increase (Decrease) in salaries and vacations payable	127	3,423	76	2,049
Increase (decrease) in other accounts payable	(647)	(17,439)	525	14,151
Increase (decrease) in other Provision	4,672	125,930	808	21,779
Payment in the Contingency for the year	(18)	(485)	0	0
<b>Cash provided by operating activities</b>	<u>12,422</u>	<u>334,814</u>	<u>8,299</u>	<u>223,693</u>
Income tax and social security paid in the fiscal year	(5,192)	(139,946)	(2,984)	(80,431)
<b>Net cash provided by operating activities</b>	<u>7,230</u>	<u>194,868</u>	<u>5,315</u>	<u>143,261</u>
<b>Cash flows from investment activities</b>				
Purchases of property, plant and equipment	(2,763)	(74,474)	(748)	(20,162)
Receipt from Fixed assets sold	21	566	0	0
<b>Net cash used in investment activities</b>	<u>(2,742)</u>	<u>(73,908)</u>	<u>(748)</u>	<u>(20,162)</u>
<b>Cash flows from financing activities</b>				
Paid up capital	-	-	-	-
Loan raising	-	-	3,030	81,671
Payment of loans	(3,030)	(81,671)	(10,680)	(287,871)
<b>Net cash used in financing activities</b>	<u>(3,030)</u>	<u>(81,671)</u>	<u>(7,650)</u>	<u>(206,199)</u>
<b>(Decrease) increase in cash and cash equivalents</b>	<u>1,458</u>	<u>39,289</u>	<u>(3,083)</u>	<u>(83,100)</u>
<b>(Decrease) increase in cash and cash equivalents</b>				
At beginning of year	4,073	109,784	7,156	192,884
At end of year	<u>5,531</u>	<u>149,084</u>	<u>4,073</u>	<u>109,784</u>
	<u>1,458</u>	<u>39,299</u>	<u>(3,083)</u>	<u>(83,100)</u>

See the accompanying notes to the financial statements.

## Notes to the financial statements

**Years ended December 31, 2010 and 2009**

*(In thousands of Reais)*

### **1 Operations**

Ranbaxy Farmacêutica Ltda. (“Ranbaxy”) is a company domiciled in the State of Rio de Janeiro, and its administration is located in the State of São Paulo. It was incorporated on October 22, 1993 and its country of origin is India. The Company’s administration is located at Avenida Maria Coelho Aguiar, 215, 8th Floor, block A, Jardim São Luiz, Santo Amaro, São Paulo. The financial statements for the year ended December 31, 2010, only refer to Ranbaxy, whose main activity is the manufacture, importation, distribution and selling of pharmaceutical products.

### **2 Basis for preparing the financial statements**

#### *a. Statement of compliance in accordance with the Accounting Pronouncements*

##### *Committee norms (CPC)*

The financial statements have been prepared in accordance with accounting practices adopted in Brazil, which are derived from the pronouncements and interpretations issued by the Committee for Accounting Pronouncements (CPC).

The financial statements were authorised for conclusion by the quotaholders on March 18, 2011.

#### *b. Basis for measurement*

The financial statements have been prepared on the historical cost basis, except for financial instruments at fair value through profit and loss, which are measured at fair value.

#### *c. Functional currency*

These financial statements are presented in Reais, which is the Company’s functional currency. All of the financial information presented in Reais has been rounded to the nearest thousand, unless otherwise stated.

***d. Use of estimates and judgments***

The preparation of financial statements in accordance with standards issued by the Committee for Accounting Pronouncements (CPC) requires management to make judgments, estimates and assumptions which affect the use of accounting policies and the amounts reported of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 7 - Provision for doubtful receivables
- Note 8 - Provision for obsolete inventories
- Note 9 - Deferred taxes
- Note 10 - Depreciation of property, plant and equipment
- Note 15 - Provision for contingencies

***e. Explanation of main effects from adopting the new CPCs norms***

The Company adopted the following CPC's for the year ended December 31, 2010, and also for the comparative year ended December 31, 2009. The application of these new pronouncements did not have an impact on the Company's financial statements. The new pronouncements are listed below:

- CPC 16 - Inventories
- CPC 23 - Accounting policies, changes in estimates and correction of errors
- CPC 24 - Subsequent events
- CPC 25 - Provisions, contingent liabilities and contingent assets
- CPC 26 - Preparation and presentation of the financial statements
- CPC 27 - Property, plant and equipment
- CPC 30 - Revenues

- CPC 32 - Taxes on income
- CPC 33 - Employee benefits
- CPC 38 - Financial instruments: Recognition and Measurement
- CPC 39 - Financial instruments: Presentation
- CPC 40 - Financial instruments: Evidence
- CPC 43 - Initial adoption of Technical Pronouncements CPC 15 to 41
- ICPC 10 - Interpretation of initial adoption for property, plant and equipment and investment property for technical pronouncements CPC 27, CPC 28, CPC 37 and CPC 43.

### **3 Significant accounting policies**

The accounting policies described in detail below have been applied consistently for all of the periods presented in these financial statements. The financial statements were prepared in accordance with accounting practices adopted in Brazil, derived from the pronouncements, guidance and interpretations of the Committee for Accounting Pronouncements (CPC), and the rules issued by the Federal Accounting Council (CFC).

#### ***a. Statement of income***

Income and expenses are recognized on the accrual basis.

#### ***b. Transactions in foreign currency***

Transactions in foreign currency are translated to the Company's functional currencies at the exchange rate on the dates of each transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year, adjusted for interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the reporting date.

Non monetary assets and liabilities denominated in foreign currencies that are measured at fair values are retranslated to the functional currency at the exchange rate on the date that the fair value was determined. The foreign currency differences arising on retranslation are recognized to profit or loss, with the exception of difference arising from the retranslation of financial instruments available for sale. Non monetary items that are measured in terms of historic costs in foreign currency are translated at the exchange rate on the transaction date.

**c. *Financial instruments***

Non derivative financial instruments include trade accounts receivable, cash and cash equivalents, loans and also accounts payable and other debts.

- *Non derivative financial assets and liabilities*

The Company initially recognizes receivables on the date they originated. All other financial assets are initially recognized on the date of the negotiations when the Company becomes party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights from the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset under a transaction in which essentially all of the risks and rewards of ownership to the financial asset have been transferred. Any interest that is created or withdrawn by the Company in the financial assets is recognized as a separate asset or liability.

The Company has the following non derivative financial assets: financial assets recorded at fair value through profit or loss and receivables.

- *Financial assets stated at fair value through profit or loss*

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sales decisions based on their fair value according to the documented risk management and investment strategy. Attributable transaction costs are recognized in profit and loss as incurred. Financial assets classified at fair value through profit or loss are stated at fair value and any changes in the fair values of these assets are recognized in profit and loss.

- *Receivables*

Receivables are financial assets with fixed or estimated payments that are not quoted on an active market. These assets are initially recognized at fair values plus any attributable transaction costs. After the initial recognition, receivables are measured at amortized cost using the effective interest rate method, less any loss due to decrease in recoverable value. Receivables include other receivables.

Financial assets and liabilities are offset and the net value is presented in the balance sheet when, and only when, the Company has the legal right to offset the amounts and intends to settle on a net basis or to concurrently realize the asset and settle the liability.

- *Non derivative financial liabilities*

The Company initially recognizes debt securities on the date they originated. All other financial liabilities (including liabilities designated at fair value recognized to profit or loss) are initially recognized on the date of the negotiation when the Company becomes a party to the contractual provisions of the instrument. The Company no longer recognizes a financial liability when the contractual obligations have been removed, cancelled or expired. The Company uses the settlement date as the accounting criterion.

The Company has the following non derivative financial liabilities: domestic suppliers, current tax liabilities, salaries and vacation payable and other liabilities.

These financial liabilities are initially recognized at fair values plus any attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest rate method.

- *Derivative financial assets and liabilities*

The Company did not operate or have any outstanding derivative financial instrument transactions as at December 31, 2010 and 2009.

**d. Current and non current assets**

*Cash and cash equivalent*

Cash and cash equivalents include cash balances and financial investments with original maturity of three months, or less, as from the contract date. Limits for overdrafts from banks that have to be paid in cash and are part of cash management, are included as cash and cash equivalents for purposes of the statement of cash flows.

*Trade accounts receivable*

Trade accounts receivable refer to amounts receivable from clients from the sale of goods or services rendered during the Company's normal activities. If the payment terms is equivalent to one year or less (or another period that is consistent with the Company's normal cycle), trade accounts receivable are classified as current assets. Otherwise, they are presented as noncurrent assets.

Trade accounts receivable are initially recorded at billed amounts, including the related direct taxes that are the responsibility of the Company, less withholding taxes, which are considered as tax credits.

The amount recorded as a provision for doubtful receivables is considered sufficient by management to cover eventual losses arising on the realization of the receivables.

### *Inventories*

Inventories are valued based on the historical cost of acquisition or production including expenses incurred from transportation, storage, non recoverable taxes. In the case of manufactured inventory, work in progress and finished products, inventory includes the general manufacturing expenses based on normal operating capacity. Cost is determined based on weighted average movable cost. The amounts of recorded inventories do not exceed the net realizable value. The net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

### *e. Property, plant and equipment*

- *Recognition and measurement*

Items of property, plant and equipment are measured at historic purchase or construction cost, less accumulated depreciation and impairment losses.

Improvements to leasehold properties are amortized over the period of the lease contract.

Any software purchased that is an integral part of the operating of equipment is capitalized as part of the equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is recognized net within other income/expenses in profit or loss.

- *Subsequent costs*

The cost of replacing a component of property, plant and equipment is recognized at the carrying value of the component when it is probable that the economic benefits incorporated within the component will flow to the Company and its cost can be reliably measured. The carrying value of a replaced component is derecognised. The daily maintenance cost of property, plant and equipment are recognized in profit or loss as incurred.

- *Depreciation*

Depreciation is calculated on the depreciable value, which is the cost of an asset, or another value that substitutes cost, less its residual value.

Depreciation is recognized in profit or loss using the straight-line method at the rates described below, which take into account the estimated useful life of the assets and the respective residual values. Land is not depreciated.

The estimated useful lives are as follows:

	<b>Years</b>
Machinery and equipment	10
Furniture, fixtures and fittings	10
Computer equipment	5
Vehicles	5
Leasehold improvements	4

Residual values and the useful lives of material assets are reviewed and adjusted, if adequate, at the end of the fiscal year.

The Company opted not to value its plant, property and equipment at deemed cost as it understands that the historic cost, less best estimates of depreciation and impairment losses, when necessary, best represents their acquisition values in accordance with the requirements for recognizing an asset as provided in CPC 27.

*f. Current and non current liabilities*

Current and non current liabilities are stated at the known or estimated amounts, plus, when applicable, the corresponding charges and monetary and/or exchange variations incurred up to the balance sheet date.

**g. Provisions**

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic resources will be required to settle the obligation. Provisions are stated based on best estimates of the risk involved.

**h. Income tax and social contribution**

Current and deferred income tax and social contribution are calculated based on rates of 15%, plus a surtax of 10% on taxable profit in excess of R\$ 240 thousand [INR 6299 thousand] for income tax and 9% on taxable profit for social contribution on net profit, and consider compensation of tax losses and the negative social contribution base, limited to 30% of taxable profit.

Current tax is the tax payable or receivable anticipated on the taxable profit or loss for the year, at the tax rates decreed or substantially decreed on the date of presenting the financial statements and any adjustments to taxes payable from prior years.

Deferred tax is recognized in relation to temporary differences between the carrying values of assets and liabilities for accounting purposes and the corresponding values used for tax purposes. Deferred tax is measured at rates that are expected to be used for the temporary differences when they are reversed, based on the laws that were decreed or substantially decreed to the date of presenting the financial statements.

Deferred tax assets and liabilities are offset if there is a legal right to compensate current tax assets and liabilities, and they refer to income taxes registered by the same taxation authority against the same entity subject to taxation.

The deferred social contribution and income tax asset is recognized for tax losses, tax credits and temporary differences deductible not used, when it is probable that future profits subject to taxation will be available and against which the asset will be used

Deferred income tax and social contribution are revised on the date of each report, and will be reduced to the extent that realization is no longer probable.

For purposes of determining taxable profit and its effects on the financial statements, the Company adopted the Transitory Taxation System (RTT), as provided in MP 449/08 (Law 11.941/09) and this option was confirmed at the time of submitting the Declaration of Corporate Economic-Fiscal Information (DIPJ) for the 2009 calendar year.

## 4 Financial risk management

### *General overview*

The Company is exposed to the following risks from the use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

### *Risk Management Structure*

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to define appropriate limits and controls for risks, and to monitor risks and adhere to limits. Risk management policies and systems are frequently revised to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

### *Credit risk*

Credit risk is the risk of a financial loss to the Company in the event a customer or counterparty to a financial instrument fails to meet its contractual obligations, arising mainly from the Company's trade accounts receivable and investment securities.

### *Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulties in fulfilling its obligations associated with its financial liabilities that are settled through cash payments or with other financial assets. The Company's approach to manage liquidity is to guarantee, as far as possible, that there is always sufficient liquidity to fulfill the obligations that fall due, under normal and stressed conditions, without creating unacceptable losses or the risk of the Company's reputation being affected.

### ***Market risk***

Market risk refers to the risks from alterations to market prices, such as foreign exchange rates and interest rates, on the Company's gains or on the value of its investments in financial instruments. The objective of market risk management is to manage and control exposure to market risks, within acceptable parameters and at the same time optimize return.

### ***Currency risk***

The Company is subject to currency risk on the sales, purchases and loans made in currencies other than its functional currency, which is the Real (R\$). The currencies in which these transactions are denominated are mainly: USD (dollar) and Euro (€). Currently, there is no significant exposure in currencies that differ from its functional currency, since the volumes of arrivals and dispatches in foreign currency are equivalent. Thus, the Company does not undertake any form of financial operations aimed at reducing these exposures, such as exchange hedging.

### ***Operational risk***

Operational risks can represent direct or indirect losses arising from all of the group's operations, related to the company's processes, staff, technologies and infra-structure, and also external factors, except credit, market and liquidity risks.

The Company's objective is to manage operational risk to avoid incurring financial losses and damage to its reputation.

The Company adopts initiatives to manage risks in the following areas:

- Compliance with regulatory and legal requirements;
- Documentation of controls and procedures;
- Preparation of contingency plans;
- Training and professional development;
- Ethical and moral standards through a code of conduct;
- Mitigation of risks through insurance plans.

The aforementioned measures are analyzed and accompanied by the Compliance, legal and Regulatory areas and by the Company's Executive Committee.

## **Cash and cash equivalents**

	<b>2010</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>
		INR		INR
Cash and banks	344	9,272	3,442	92,776
Demand deposits	<u>3,139</u>	<u>84,609</u>	<u>631</u>	<u>17,008</u>
	<u>3,483</u>	<u>93,881</u>	<u>4,073</u>	<u>109,784</u>

The amounts registered as demand deposits are remunerated at rates that vary between 20% p.m and 35% p.m of Certificates of Interbank Deposits - CDI for the period they remain in the account, with no restrictions on withdrawals or movements.

## 6 Investments

	<b>2010</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>
		INR		INR
Investments	<u>2,048</u>	<u>55,202</u>	=	==

Investments are subject to interest classified as available for sale, with a book value of R\$ 2,048 [INR 55,202] at December 31, 2010, bear fixed interest rates of between 95% and 100% of the Certificates of Interbank Deposits - CDI for a maximum period of 36 months, with a restriction of 30 days for withdrawals or movements.

## 7 Trade accounts receivable

	<b>2010</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>
		INR		INR
Domestic	23,910	644,474	23,886	643,827
(-) provision for doubtful receivables	-3,041	-81,968	-1,877	-50,593
Total current assets	<u>20,869</u>	<u>562,507</u>	<u>22,009</u>	<u>593,235</u>

The following table summarizes balances receivable by maturity date:

	<b>2010</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>
		INR		INR
Not yet due	17,256	465,121	19,103	514,906

Past due:

From 01 to 30 days	204	5,499	654	17,628
From 31 to 60 days	34	916	1,041	28,059
From 61 to 90 days	1,264	34,070	997	26,873
From 91 to 180 days	1,625	43,801	35	943
More than 181 days	<u>3,527</u>	<u>95,067</u>	<u>2,056</u>	<u>55,418</u>
Total	<u>23,910</u>	<u>644,474</u>	<u>23,886</u>	<u>643,827</u>

Losses on recovering the balances for trade accounts receivable are recognized to profit or loss, complying with the criteria defined by Management, based on an analysis of the risks, to cover possible losses. .90% of the past due accounts receivables not provisioned for pertain to dues from government entities, these being duly recoverable.

## 8 Inventories

	2010	2010	2009	2009
		INR		INR
Finished goods	11,463	308,976	11,298	304,528
Packaging materials and Consumables	621	16,739	364	9,811
Imports in progress	1,401	37,763	3,634	97,951
	-4,005	-	-3,757	
Provision for inventory obsolescence		107,951		-101,267
	<u>9,480</u>	<u>255,526</u>	<u>11,539</u>	<u>311,024</u>

A provision for inventory obsolescence was registered for certain items considered obsolete or slow moving.

## 9 Deferred taxes

Deferred income tax and social contribution assets are recorded to reflect the future tax effects attributable to temporary differences between the tax base for assets and liabilities and the respective carrying values. Management anticipates recovering the tax credits arising from the temporary differences in proportion to the final outcome for contingencies and other events.

The Company, based on a technical study approved by Management, related to estimated future taxable profits, recognized, at December 31, 2010, a deferred tax asset for carryforward tax losses and the negative social contribution base from prior years, for which there is no limitation period, and for which compensation is limited to 30% of annual taxable profits.

Deferred income tax and social contribution originated from the following:

	2010	2010	2009	2009
		INR		INR
Provision for doubtful receivables	3,041	81,968	1,877	50,593
Provision for returned goods	621	16,739	187	5,040
Provision for inventory obsolescence	4,005	107,951	3,757	101,267
Provision for various services	7,721	208,113	3,004	80,970
Provision for labor contingencies	1,539	41,482	933	25,148
Provision for regulatory contingencies	834	22,480	816	21,995
Revenue recognition	810	21,833	-670	-18,059
Provisions for exchange variations payable	-522	-14,070	-319	-8,598
Total temporary differences	<u>18,049</u>	<u>486,496</u>	<u>9,585</u>	<u>258,356</u>
Combined tax rate	34%		34%	
Deferred income tax on temporary differences (A)	6,138	165,445	<u>3,260</u>	87,871
Tax losses	<u>11,358</u>	<u>306,146</u>	<u>18,525</u>	<u>499,326</u>
Applicable tax rate	25%		25%	
Deferred income tax on tax losses (B)	<u>2,840</u>	<u>76,550</u>	<u>4,631</u>	<u>124,825</u>
Negative social contribution base	<u>12,751</u>	<u>343,693</u>	<u>19,918</u>	<u>536,873</u>
Applicable tax rate	9%		9%	
Deferred income tax on negative social contribution base (C)	1,148	30,943	<u>1,793</u>	<u>48,329</u>

Total Deferred tax asset - noncurrent (A + B + C)	<u>10,126</u>	<u>272,938</u>	<u>9,684</u>	<u>261,024</u>
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The reconciliation of the income tax and social contribution expense in the statement of income is presented below:

	2010	2010	2009	2009
		INR		INR
<b>Profit before income tax and social contribution</b>	<u>15,463</u>	<u>405,853</u>	<u>16,027</u>	<u>420,656</u>
Combined tax rate	34%		34%	
Income tax and social contribution at the combined tax rate	-5,257	-137,979	-5,449	-143,018
<b>Profit before social contribution</b>	<u>15,463</u>	<u>405,853</u>	<u>16,985</u>	<u>445,801</u>
<b>Temporary additions</b>				
Provision for inventory obsolescence	-4,712	-123,675	-4,422	-116,063
Provision for logistic operations	-4,581	-120,236	-485	-12,730
Provision for doubtful receivables	-1,234	-32,388	-878	-23,045
Provision for performance bonus	-1,075	-28,215	-481	-12,625
Provision for returned goods	-621	-16,299	-188	-4,934
Revenue recognition	-810	-21,260	-958	-25,144
Others	<u>-685</u>	<u>-17,979</u>	<u>-730</u>	<u>-19,160</u>
<b>Permanent additions</b>	-13,718	-360,052	-8,142	-213,701
Tax penalties	-	-	-1,794	-47,087
Transfer price adjustment	-32	-840	-395	-10,367
Others	<u>-253</u>	<u>-6,640</u>	<u>-16</u>	<u>-420</u>
	-285	-7,480	-2,205	-57,874
<b>Permanent exclusions</b>				
Reversal of provision for obsolete inventory	4,422	116,063	2,643	69,370
Reversal of provision for logistic operations	485	12,730	352	9,239

Reversal of provision for returned goods	188	4,934	-	-
Reversal of revenue recognition	958	25,144	-	-
Reversal of provision for performance bonus	481	12,625	378	9,921
Reversal of provision for unrealised exchange variation	-	-	9,168	240,630
Others	<u>-</u>	<u>-</u>	<u>671</u>	<u>17,612</u>
	6,534	171,496	13,212	346,772
Compensation of tax losses from prior years (*)	6,880	180,577	3,949	103,648
	<u>16,052</u>	<u>421,312</u>	<u>9,213</u>	<u>241,811</u>
Social contribution base (adjusted profit)				
Current Social contribution (D)	-1,444	-37,900	<u>-829</u>	-21,759
<b>Profit before income tax and after CSSL</b>	<u>14,019</u>	<u>367,953</u>	<u>16,156</u>	<u>424,042</u>
<b>Temporary additions</b>				
Provision for inventory obsolescence	-4,712	-123,675	-4,422	-116,063
Provision for logistic operations	-4,581	-120,236	-485	-12,730
Provision for doubtful receivables	-1,234	-32,388	-878	-23,045
Provision for performance bonus	-1,075	-28,215	-481	-12,625
Provision for returned goods	-621	-16,299	-188	-4,934
Revenue recognition	-810	-21,260	-958	-25,144
Provision for CSSL	-1,444	-37,900	-829	-21,759
Others	<u>-685</u>	<u>-17,979</u>	<u>-730</u>	<u>-19,160</u>
	-15,162	-397,953	-8,971	-235,459
<b>Permanent additions</b>				
Tax penalties	-	-	-1,794	-47,087
Transfer price adjustment	-32	-840	-395	-10,367
Others	<u>-253</u>	<u>-6,640</u>	<u>-16</u>	<u>-420</u>

	-285	-7,480	-2,205	-57,874
<b>Permanent exclusions</b>				
Reversal of provision for obsolete inventory	4,422	116,063	2,643	69,370
Reversal of provision for logistic operations	485	12,730	352	9,239
Reversal of provision for returned goods	188	4,934	-	-
Reversal of revenue recognition	958	25,144	-	-
Reversal of provision for performance bonus	481	12,625	378	9,921
Reversal of provision for unrealised exchange variation	-	-	9,168	240,630
Others	<u>-</u>	<u>-</u>	<u>671</u>	<u>17,612</u>
	6,534	171,496	13,212	346,772
Compensation of tax losses from prior years (*)	6,880	180,577	3,949	103,648
Income tax base (adjusted profit)	16,052	421,312	9,213	241,811
Other items	<u>495</u>	<u>12,992</u>	<u>108</u>	<u>2,835</u>
Current income tax (E)	-3,889	-102,073	-2,277	-59,764
Total income tax and social contribution (D+E)	-5,334	-140,000	-3,106	-81,522
Deferred income tax and social contribution in profit or loss	214	5,617	9,911	260,131
Total Income tax and Social contribution	5,120	134,383	6,805	178,609
Effective tax rate	33,1%		42,5%	

(\*) Includes the effect of 34% on tax loss compensations.

Based on the estimates of future taxable profits being generated, the Company anticipates that the tax credits for carryforward tax losses will be recovered in the following years:

		<b>INR</b>
2011	1,434	37,638

2012	968	25,407
2013	1586	41,627
Total	<u>3988</u>	<u>104,672</u>

The estimates for recovering the tax credits were based on forecasts of taxable profits taking into consideration various financial and business assumptions, considered at the end of the year. Consequently, the estimates may not materialize in the future, given the uncertainties inherent to these forecasts

## 10 Property, plant and equipment

	Land and buildings	Machinery and equipment	Furniture, fixtures and fittings	Vehicles	Advance to purchase fixed assets	Total
<b>Cost</b>						
Balance at December 31, 2009.	856	3,614	1,087	1,341	-	6,898
Additions	-	787	967	333	455	2,542
Disposals and write offs	<u>-</u>	<u>-187</u>	<u>-223</u>	<u>-53</u>	<u>-</u>	<u>-463</u>
Balance at December 31, 2010	<u>856</u>	<u>4,214</u>	1,831	<u>1,621</u>	455	<u>8,977</u>
<b>Depreciation</b>						
Balance at December 31, 2009.	-	-2,096	-840	-688	-	-3,624
Additions	-	-404	-85	-241	-	-730
Disposals and write offs	<u>-</u>	<u>178</u>	<u>213</u>	<u>52</u>	<u>-</u>	<u>443</u>
Balance at December 31, 2010	<u>-</u>	<u>-2,322</u>	<u>-712</u>	<u>-877</u>	<u>-</u>	<u>-3,911</u>
<b>Carrying values</b>						

Balance at December 31, 2009	<u>==</u>	<u>1,518</u>	<u>247</u>	<u>653</u>	<u>==</u>	<u>3,274</u>
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Balance at December 31, 2010,	<u>856</u>	<u>1,892</u>	<u>1,119</u>	<u>744</u>	<u>455</u>	<u>5,066</u>
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	<b>Land and buildings</b>	<b>Machinery and equipment</b>	<b>Furniture, fixtures and fittings</b>	<b>Vehicles</b>	<b>Advance to purchase fixed assets</b>	<b>Total</b>
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**Cost**

Balance at December 31, 2009.	23073	97412	29299	36146	-	185930
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Additions	-	21213	26065	8976	12264	68518
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Disposals and write offs	<u>==</u>	<u>-5040</u>	<u>-6011</u>	<u>-1429</u>	<u>==</u>	<u>-12480</u>
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Balance at December 31, 2010	<u>23073</u>	<u>113585</u>	49353	<u>43693</u>	12264	<u>241968</u>
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Depreciation

Balance at December 31, 2009.	-	-56496	-22642	-18544	-	-97682
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Additions	-	-10889	-2291	-6496	-	-19677
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Disposals and write offs	<u>==</u>	<u>4798</u>	<u>5741</u>	<u>1402</u>	<u>==</u>	<u>11941</u>
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Balance at December 31, 2010	<u>==</u>	<u>-62588</u>	<u>-19191</u>	<u>-23639</u>	<u>==</u>	<u>-105418</u>
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**Carrying values**

Balance at December 31, 2009	<u>==</u>	<u>40916</u>	<u>6658</u>	<u>17601</u>	<u>==</u>	<u>88248</u>
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Balance at December 31, 2010,	<u>23073</u>	<u>50997</u>	<u>30162</u>	<u>20054</u>	<u>12264</u>	<u>136550</u>
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Certain fixed assets were given as guarantee as part of the Program for Debt Installment Payments offered by the Federal Tax Services.

**11 Loans**

	2010	2010	2009	2009
		INR		INR
Banco Santander/Real	<u>-</u>		<u>3,030</u>	<u>81671</u>

Working capital loan according to contract no. 62/288725.8, dated November 24, 2009, which was renewed on February 22, 2010 and subsequently matured on May 21, 2010 for the amount of R\$ 3,000 [INR 80,863], with contract charges of 0.979% p.m. A guarantee was given in the form of a pledge over bills receivable, for the amount of R\$ 4.200 [INR 113,208] equivalent to 140% of the original value of the loan. The loan was liquidated in May 2010.

## 12 Taxes and contributions payable

	2010	2010	2009	2009
		INR		INR
ICMS	105	2,830	643	17,332
Withholding tax	164	4,420	160	4,313
INSS	163	4,394	149	4,016
Others	140	3,774	131	3,531
ICMS on destroyed inventory (a)	<u>707</u>	<u>19057</u>	<u>663</u>	<u>17871</u>
Total	<u>1,279</u>	<u>34474</u>	<u>1,746</u>	<u>47062</u>

(a) Provision for ICMS on destroyed inventory relates to some items considered obsolete or slow moving, which are evaluated monthly.

## 13 Related parties

The transactions undertaken with related parties are performed during the normal course of business, in accordance with prices agreed between the parties. At December 31, 2010 and 2009, the main transactions and balances outstanding with related parties were as follows:

				Balances		
2010		2009		2010	2009	2010
Transactions/results		Transactions/results		Current asset	Current asset	Current liability
Purchases	Interest		Interest			
transaction	loan	Purchases	loan	Value	Value	Value

Ranbaxy Labs Ltd.	28,706	-	29,057	-	-	604	15,808
Ranbaxy Netherlands	-----	134	-----	4	-	145	4,211
Total	<u>28,706</u>	<u>134</u>	<u>29,057</u>	<u>4</u>	<u>=</u>	<u>749</u>	<u>20,019</u>

**Balances**

	<u>2010</u>		<u>2009</u>		<u>2010</u>	<u>2009</u>	<u>2010</u>
	Transactions/results		Transactions/results		Current asset	Current asset	Current liability
	Purchases transaction	Interest loan	Purchases	Interest loan	Value	Value	Value
Ranbaxy Labs Ltd.	753,438	-	762,651	-	-	16,280	426,092
Ranbaxy Netherlands	-----	3,622	-----	105	-	3,908	113,504
Total	<u>753,438</u>	<u>3,622</u>	<u>762,651</u>	<u>105</u>	<u>=</u>	<u>20,189</u>	<u>539,596</u>

Remuneration expenses for key management personnel (directors), recorded in profit or loss for the years ended December 31, 2010 and 2009 were R\$ 1,783 [INR 46,798] and R\$ 1,654 [INR 44,582], respectively.

## 14 Other provisions

	<b>2010</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>
		<b>INR</b>		<b>INR</b>
Sales commission payable	761	20,512	681	18,356
Bonuses to employees payable	790	21,294	484	13,046
Marketing actions payable	356	9,596	432	11,644

Administrative services payable	526	14,178	260	7,008
Reposition of logistics operations (a)	<u>4,581</u>	<u>123,477</u>	<u>485</u>	<u>13,073</u>
	<u>7,014</u>	<u>189,057</u>	<u>2,342</u>	<u>63,127</u>

(a) The Company uses inventories from the largest distributors in Brazil to make deliveries of goods resulting from negotiations undertaken with Independent Pharmacies and pharmaceutical networks that have decentralized delivery, with these negotiations undertaken by the sales force from Ranbaxy. As reimbursement to distributors, the Company pays the amount that refers to the Logistics Operation, which varies between 5% and 10% of these operations. The reimbursements are made by means of bonuses in the form of goods and/or additional sales discounts. The aforementioned amount refers to the costs of the logistics operations that were still pending at the end of 2010.

## 15 Provision for contingencies

The Group is party (plaintiff) to judicial and administrative processes with various courts and government bodies, arising from the normal course of its operations, involving tax, labor and civil aspects and other issues.

Management, based on information from its legal advisors, analyses of pending legal demands, and with respect to labor claims, based on its prior experience of amounts claimed, has registered a provision for an amount considered sufficient to cover the probable estimated losses estimated from ongoing claims, as follows:

	<b>2010</b>			<b>2009</b>
	<b>Provision</b>	<b>Court deposits</b>	<b>Net</b>	<b>Net</b>
Labor	1,539	-393	1,146	837
Civil	<u>834</u>	<u>—</u>	<u>834</u>	<u>816</u>
	<u>2,373</u>	<u>393</u>	<u>1,980</u>	<u>1,653</u>
			<b>2010</b>	<b>INR 2009</b>
	<b>Provision</b>	<b>Court deposits</b>	<b>Net</b>	<b>Net</b>

Labor	41,482	-10,593	30,889	22,561
Civil	<u>22,480</u>	<u>-</u>	<u>22,480</u>	<u>21,995</u>
	<u>63,962</u>	<u>10,593</u>	<u>53,369</u>	<u>44,555</u>

*a. Movement of processes during the year*

	<b>2009</b>	<b>2010</b>		
	<b>Opening balance</b>	<b>Additions</b>	<b>Write off</b>	<b>Closing balance</b>
Labor	837	309		1,146
Civil	<u>816</u>	<u>36</u>	<u>-18</u>	<u>834</u>
Total	<u>1,653</u>	<u>345</u>	<u>-18</u>	<u>1,980</u>
	<b>2009</b>	<b>INR 2010</b>		
	<b>Opening balance</b>	<b>Additions</b>	<b>Write off</b>	<b>Closing balance</b>
Labor	22,561	8,329		30,889
Civil	<u>21,995</u>	<u>970</u>	<u>-485</u>	<u>22,480</u>
Total	<u>44,555</u>	<u>9,299</u>	<u>-485</u>	<u>53,369</u>

Other processes exist that have been evaluated by the legal advisors as representing possible or remote risks, , for the amount of R\$1,260 [INR 33,962] (R\$ 157 [INR 4,231] in 2009) for which no provision has been registered, given that accounting practices adopted in Brazil do not require such provision.

*b. Summary of tax processes*

1

On December 22, 2006, the Brazilian Social Security Authorities assessed the Company for R\$ 1,398, [INR 36,693] according to process 35328.011646/2006-16, relating to the remuneration of an employee through the marketing company “Incentive House” between July 2002 and November 2005 and refers to INSS on a base of R\$ 3,773 [INR 99,029], including a 60% penalty and interest (Selic).

2

On December 18, 2007, the Brazilian Inland Revenue Services assessed the Company for R\$ 39,043 [INR 1,024,751], according to process 15540.000432/2007-65, which referred to events that occurred in 2002, regarding the following:

- (i) Supposed omission of income from operations involving returned goods from January to March 2002, without the necessary supporting evidence, amounting to R\$ 35,976 [INR 944,252], including corporate income tax, social contribution on net profit, PIS and COFINS on a base of R\$ 29,275 [INR 768,373] including a 150% penalty and interest (Selic);
- (ii) Costs or expenses without supporting evidence incurred with the marketing company Incentive House from June to December 2002; R\$ 1,271 [INR 33,360], including IRPJ and CSSL on a base of R\$ 970 [INR 25,459] including a 150% penalty and interest (Selic);
- (iii) Not adding back costs, expenses and charges in 2002, calculated based on transfer pricing legislation, for R\$ 361 [INR 9,475], including IRPJ on a base of R\$ 442 [INR 11,601], including a 150% penalty and interest (Selic);
- (iv) Payment of an unidentified benefit made through the marketing company “Incentive House” from June to December 2002, for R\$ 1,435 [INR 37,664], including IRRF 35% on a base of R\$ 1.336 [INR 35,066], including a 150% penalty and interest (Selic).

3

On June 27, 2008, the Brazilian Inland Revenue Services assessed the Company for R\$ 4.346 [INR 114,068], according to process 15540.000214/2008-10, which referred to events that occurred between 2003 to 2005, and referred to the payment of an unidentified benefit made through the marketing company “Incentive House” from January 2003 to November 2005, for the amount of R\$ 4,801 [INR 126,010], including IRRF of 35% on a base of R\$ 2,836 [INR 74,436], including a 150% penalty and interest (Selic).

**c. Evolution of tax processes**

In January 2008, the Company paid the tax referred to in item 2 (iii) above, totalling R\$ 238 [INR 6,247], and benefitted from a 50% penalty reduction. On December 17, 2008, the Company obtained a favorable decision in the lower courts, with the amounts due on the omission of income referred to in item (i) reduced to zero. This item of the assessment is at the second court level in Brasília and the Company’s legal advisors consider the risk of loss to be remote.

The decision given on December 17, 2008, retained the non deductibility of expenses for tax purposes with “Incentive House” and the unidentified payments and benefits, and considered the claim filed by the Company as unfounded, with the balance remaining of R\$ 10.621 [INR 278,766], after correction.

The Company continues with the processes questioning the liability for payments related to the expenses from “Incentive House” and the unidentified payments to beneficiaries in an appeal filed in the administrative sphere, and according to the legal advisors, the probability of loss is considered probable. In November 2009, the Company decided to include these processes in the installment payments program offered by the Federal Government, as described below.

The Company joined the Program for Debt Installment Payments from the National Treasury of the Attorney General Office and Federal Treasury Services, granted under law 11,941/09.

As a result of the evaluation made of the risks of tax debts, the Company opted to liquidate its tax contingencies amounting to R\$ 4,340 [INR 113,911], and adhere to the aforementioned program. This adhesion resulted in a benefit of R\$ 4,730 [INR 124,147] through the reduction of penalties, interest and legal charges. From adhering to this installment program, the Company eliminated all of its tax contingencies registered as probable losses that had been recognized in the balance sheet.

*d. List of Goods and Rights for Enlisting*

As a result of the aforementioned tax procedure, the Federal Revenue Services, in compliance with IN/SRF 1.088 requires the registration of assets that can be offered in guarantee for the tax credit, and representation for purposes of the tax warrant, for amounts in excess of R\$ 500 [INR 13,477].

The following assets were enlisted in order to comply with the aforementioned norm:

1. Real estate located at the Industrial District in Campo Grande for R\$ 550 [INR 14,825];
2. Vehicles registered with Detran for R\$ 798 [INR 21,509];
3. Quality Control Equipment - HPLC for R\$ 456 [INR 12,291].

## 16 Capital

Capital is comprised of 14,971,089 quotas, being 12,482,664 quotas “Class A” with a nominal value of R\$ 1.00 [INR 27] each and 488,425 quotas “Class B” with a nominal value of R\$ 10.00 [INR 270] each, accordance with the 37th alteration to the Statutes dated November 09, 2010, and which are distributed as follows:

**Values in 2010 and  
2009**

---

<b>Quotaholder</b>	<b>Quotas</b>	<b>R\$</b>	<b>INR</b>
Ranbaxy (Netherlands) B.V. - Class A	12482663	12,483	336,469
Ranbaxy (Netherlands) B.V. - Class B	488425	4,884	131,644
Ranbaxy Holdings UK Limited	<u>1</u>	<u>-</u>	<u>-</u>
	<u>14971089</u>	<u>17,367</u>	<u>468,113</u>

At December 31, 2010, foreign capital registered with the Central Bank of Brazil, which is the basis for remitting dividends and repatriating capital, amounted to R\$ 17,367 [INR 387,251] (equivalent to US\$ 12,467).

## 17 Revenue

	<b>2010</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>
		<b>INR</b>		<b>INR</b>
Resale of products	104,978	2,755,328	99,354	2,607,717
Services rendered	<u>117</u>	3,071	<u>74</u>	1,942
Gross revenue	<u>105,095</u>	<u>2,758,399</u>	<u>99,428</u>	<u>2,609,659</u>
Sales taxes	-10,979	-288,163	-11,878	-311,759
Returns and discounts	<u>-3,002</u>	<u>-78,793</u>	<u>-2,098</u>	<u>-55,066</u>
(-) Sales deductions	<u>-13,981</u>	<u>-366,955</u>	<u>-13,976</u>	<u>-366,824</u>
<b>Operational revenue</b>	<u>91,114</u>	<u>2,391,444</u>	<u>85,452</u>	<u>2,242,835</u>

Sales to domestic customers are concentrated in distributors and pharmacy chains.

## 18 Financial results

	<b>2010</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>
		<b>INR</b>		<b>INR</b>
<b>Financial costs</b>				
Interest	-265	(6,955)	-827	(21,706)

Others	-226	(5,932)	-386	(10,131)
	<u>-491</u>	<u>(12,887)</u>	-1,213	<u>(31,837)</u>

#### Financial income

Interest	73	1,916	66	1,732
Foreign exchange variation	241	6,325	8,405	220,604
Interest on investments	151	3,963	124	3,255
Others	<u>1,476</u>	<u>38,740</u>	<u>654</u>	<u>17,165</u>
	<u>1,941</u>	<u>50,945</u>	<u>9,249</u>	<u>242,756</u>

#### 19 Other operational income (expenses)

	2010	2010	2009	2009
		INR		INR
Reversal (formation) of provision	-37	-971	924	24,252
Debt waiver	-33	-866	-145	-3,806
Reimbursement from claim for goods	214	5,617	293	7,690
Others	<u>-43</u>	-1,129	<u>-52</u>	-1,365
	<u>101</u>	<u>2,651</u>	<u>1,020</u>	<u>26,772</u>

#### 20 Insurance coverage

The Company adopts the policy of taking out insurance coverage for assets subject to risks for amounts considered sufficient to cover possible damages, considering the nature of its activity. The risk assumptions adopted, given their nature, are not part of the scope of an audit of financial statements and, accordingly, were not examined by our independent auditors.

At December 31, 2010, operating risks insurance coverage was R\$ 4,200 [INR 113,208] for material damages from quality control and R\$ 500 [INR 13,477] for administration and R\$ 100 [INR 2,695] for civil liability.

#### 21 Tax losses to compensate (not audited)

At December 31, 2010, the Company had balances for tax losses to compensate and a negative social contribution base, as demonstrated below:

	<b>R\$</b>	<b>INR</b>
<b>a.</b> Tax losses	11,358	306,146
<b>b.</b> negative social contribution base	12,751	343,693

Compensation of tax loss carryforwards and the negative social contribution base is limited to 30% of annual taxable profits, generated as from 1995, with no limitation period.

## 22 Financial instruments

The Company's operations are subject to the following risk factors:

- **Credit risk**

This arises from the possibility of the Company incurring losses from defaults by its counterparties or the financial institutions holding its deposits or financial investments. To mitigate these risks, the Company's practice is to analyze the financial and equity position of its counterparties, and define credit limits and continually accompany outstanding balances. With respect to financial institutions, the Company only undertakes operations with financial institutions that have been evaluated as low risk by rating agencies.

The book values of the financial assets represent the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

<b>Book value</b>	<b>2010</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>
		<b>INR</b>		<b>INR</b>
Receivables	23,910	644,474	23,886	643,827
Cash and cash equivalents	3,483	93,881	4,073	109,784
Investments	<u>2,048</u>	<u>55,202</u>	—	—
Total	<u>29,441</u>	<u>793,558</u>	<u>27,959</u>	<u>753,612</u>

The due dates of loans and receivables at the balance sheet date were as follows:

Book value

	2010	2010	2009	2009
		INR		INR
Not yet due	17,256	465,121	19,103	514,906
Past due:				
From 01 to 30 days	204	5,499	654	17,628
From 31 to 60 days	34	916	1,041	28,059
From 61 to 90 days	1,264	34,070	997	26,873
From 91 to 180 days	1,625	43,801	35	943
More than 181 days	<u>3,527</u>	<u>95,067</u>	<u>2,056</u>	<u>55,418</u>
Total	<u>23,910</u>	<u>644,474</u>	<u>23,886</u>	<u>643,827</u>

The movement in the provision for doubtful receivable during the year was follows:

		INR
<b>Balance as at December 31, 2009</b>	1,877	50,593
Provision during the year	<u>1164</u>	<u>31,375</u>
<b>Balance as at December 31, 2010</b>	<u>3041</u>	<u>81,968</u>

The balance for the provision for doubtful receivables refers to customers for which judicial recoveries have been filed and for a customer that stated that a product.

The book value of the financial liabilities represents the liquidity exposure. The exposure to liquidity risk at the date of the financial statements was as follows:

	2010	2010	2009	2009
		INR		INR
Related party loans	4,211	113,504	4,404	118,706
Related party suppliers	<u>15,808</u>	<u>426,092</u>	<u>26,356</u>	<u>710,404</u>
Total	<u>20,019</u>	<u>539,596</u>	<u>30,760</u>	<u>829,111</u>

The maturity dates of the financial liabilities at the reporting date of the financial statements were:

	6
Carrying	months
	6 - 12

	<b>amount</b>	<b>or less</b>	<b>months</b>
Related party loan	4,211	-	4,211
Related party suppliers	<u>15,808</u>	<u>7,966</u>	<u>7,842</u>
Total	<u>20,019</u>	<u>7,966</u>	<u>12,053</u>
		<b>6</b>	<b>INR</b>
	<b>Carrying</b>	<b>months</b>	<b>6 - 12</b>
	<b>amount</b>	<b>or less</b>	<b>months</b>
Related party loan	113,504	-	113,504
Related party suppliers	<u>426,092</u>	<u>214,717</u>	<u>211,375</u>
Total	<u>539,596</u>	<u>214,717</u>	<u>324,879</u>

The Company's exposure to foreign currency risk was as follows - based on nominal values:

	<u>2010</u>		<u>2009</u>	
	<b>USD</b>	<b>INR</b>	<b>USD</b>	<b>INR</b>
Loan Payable (related party)	2,500	111,607	2,500	111,607
Suppliers	3,427	152,991	788	35,179

Losses on recovery of the balance for trade accounts receivable are recognized to profit and loss, in accordance with the criteria defined by management, based on an analysis of risks, to cover possible losses.

Based on historic default rates, the Company believes that no provision for impairment is necessary for trade accounts that have not matured or over due by up to 360 days; 80% of the balance, which includes the amounts due from the company's more important clients, which refer to clients that have a good history of payment with the company.

- **Derivative financial instruments**

At December 31, 2010 the Company did not have commitments or rights with swap contracts or hedge transactions. The company does not make investments of a speculative nature, in derivatives or any other risk assets.

\* \*

\*

Conversion rate used against Indian Rupee for the year 2010 and 2009 are :

- i) Items relating to Profit and loss account at Average rate : 1 Brazilian Real = 0.0381
- ii) Items relating to Balance Sheet at Closing rate : 1 Brazilian Real = 0.0371

Note:

Sd/-  
Alok Shubhkar Kapoor  
President

Sd/-  
Viswanathan Sethuraman  
Financial director

Sd/-  
Walter Wiesmueller Coelho Filho  
Financial manager

Sd/-  
Carlos Alberto Almeida  
Accountant  
CRC-RJ 103.509/0-1