

RANBAXY PHARMACEUTICALS INC.

Your Directors have the pleasure in presenting the unaudited Financial Statements for the period ended December 31, 2010.

WORKING RESULTS Ranbaxy Pharmaceuticals, Inc.	USD in Thousand	
	Year ended 12/31/10	Year ended 12/31/09
Net Sales	504,709	247,301
Profit/(Loss) before Interest, Depreciation, Amortization, and Impairment	51,543	29,329
Interest	624	1,806
Exchange Loss/(Gain)- (Net) on Loans	-	-
Depreciation, Amortization and Impairment	1,471	1,344
Profit/(Loss) before Tax	49,448	26,179
Income Tax (benefit)/expense	17,685	(9,146)
Profit/(Loss) after Tax	31,763	17,033
Balance as per last balance sheet	42,528	42,909
Balance available for appropriation	70,594	42,528

WORKING RESULTS Ranbaxy Pharmaceuticals, Inc.	IN INR in Thousand	
	Year ended 12/31/10	Year ended 12/31/09
Net Sales	23,098,563	11,318,002
Profit/(Loss) before Interest, Depreciation, Amortization, and Impairment	2,358,922	1,342,274
Interest	28,558	82,654
Exchange Loss/(Gain)- (Net) on Loans	-	-
Depreciation, Amortization and Impairment	67,322	61,510
Profit/(Loss) before Tax	2,263,042	1,198,111
Income Tax (benefit)/expense	809,373	(418,577)
Profit/(Loss) after Tax	1,453,669	779,534
Balance as per last balance sheet	1,901,427	1,918,461
Balance available for appropriation	3,230,812	1,946,341

Operations

The Company recorded sales of US \$504.7 million [IN INR 23,098.15 million] for the year ended December 31, 2010 which represents a 104% increase vs. prior year. Among the contributing factors were sales of Valacyclovir and Donepezil for which the benefits of first to file exclusivity were realized in 2010, tempered in part by price equalization (Valacyclovir).

Dividend

No dividends have been declared for the year.

Changes in Capital Structure

There were no changes to the Company's capital structure in 2010.

Directors

The Board constitutes of: Venkat Krishnan and John P. Reilly.

Acknowledgement

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

Sd/-

(Venkat Krishnan)

Director

Dated 21st April , 2011

RANBAXY PHARMACEUTICALS INC.

**FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010 AND 2009
AND FOR THE YEAR ENDED DECEMBER 31, 2010 AND DECEMBER 31, 2009
TOGETHER WITH REPORT OF INDEPENDENT AUDITORS**



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To,

Ranbaxy Laboratories Limited

At your request, we have audited the accompanying financial statements of Ranbaxy Pharmaceuticals Inc. ("the Company") which comprises balance sheet as at December 31, 2010 and 2009, the related statement of income for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those 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 about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of 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 audit opinion.

As discussed in Note 2(a) to the financial statements, the Company has not presented all of the disclosures including statement of cash flows and statement of stockholders equity and comprehensive income/loss that are required to present fairly the financial statements in conformity with generally accepted accounting principles in the United States.

In our opinion, except for the omission of the information discussed in preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Ranbaxy Pharmaceuticals Inc. as of December 31, 2010 and 2009, the results of their operations for the year then ended in conformity with generally accepted accounting principles in the United States.

These financial statements have been prepared for the limited purpose of the information and use of the management of Ranbaxy Laboratories Limited and for the purpose of meeting the regulatory requirements of India.

KPMG

Place: Gurgaon

Date: 21-April-2011

RANBAXY PHARMCEUTICALS INC.
BALANCE SHEET
(All amount in United States dollars, unless otherwise stated)

	<u>As of December 31, 2010</u>	<u>As of December 31, 2009</u>
ASSETS		
Current assets :		
Cash and cash equivalents	\$10,888,982	\$12,643,074
Accounts receivable, net	72,505,815	116,317,686
Inventories	76,627,452	30,166,009
Deferred tax asset	6,583,186	7,055,300
Dues from related parties	661,076,357	43,267,897
Prepaid and other current assets	563,394	1,156,068
Total current assets	\$828,245,186	\$210, 606,034
Property, plant and equipment, net	6,352,640	7,713,359
Goodwill	412,544	412,544
Deferred tax asset	97,628	932,759
Total assets	\$835,107,998	\$219, 664,696
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$25,863,500	\$ 21,654,124
Current portion of long term debt	-	20,000,000
Capital lease obligation	1,259,761	1,119,809
Dues to related parties	703,026,174	102,955,848
Income taxes payable	23,817,479	20,903,492
Accrued expenses and other current liabilities	5,004,467	3,700,830
Total current liabilities	758,971,381	170,334,103
Capital lease obligation, excluding current portion	5,541,102	6,800,864
Total liabilities	\$764,512,483	\$177,134,967
Stockholders' equity		
100 shares authorized: issued and outstanding as of December 31, 2010	\$100	\$100
Additional paid in capital	1602	1,602
Accumulated earnings	70,593,813	42,528,027
Total stockholders' equity	70,595,515	42,529,729
Total liabilities and stockholders' equity	835,107,998	219,664,696

See accompanying notes to the financial statements.

RANBAXY PHARMCEUTICALS INC.
BALANCE SHEET
(All amount in United States dollars, unless otherwise stated)

	IN INR	
	As of December 31, 2010	As of December 31, 2009
	IN INR	IN INR
ASSETS		
Current assets :		
Cash and cash equivalents	486,846,385	565,271,839
Accounts receivable, net	3,241,734,989	5,200,563,741
Inventories	3,426,013,379	1,348,722,262
Deferred tax asset	294,334,246	315,442,463
Dues from related parties	29,556,723,921	1,934,507,675
Prepaid and other current assets	25,189,346	51,687,800
Total current assets	37,030,842,266	9,416,195,780
Property, plant and equipment, net	284,026,534	344,864,281
Goodwill	18,444,842	18,444,842
Deferred tax asset	4,364,948	41,703,655
Total assets	37,337,678,591	9,821,208,558
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	1,156,357,085	968,155,884
Current portion of long term debt	-	894,200,000
Capital lease obligation	56,323,914	50,066,660
Dues to related parties	31,432,300,240	4,603,155,964
Income taxes payable	1,064,879,486	934,595,127
Accrued expenses and other current liabilities	223,749,720	165,464,109
Total current liabilities	33,933,610,445	7,615,637,745
Capital lease obligation, excluding current portion	247,742,670	304,066,629
Total liabilities	34,181,353,115	7,919,704,375
 Stockholders' equity		
100 shares authorized: issued and outstanding as of December 31, 2010	4,471	4,471
Additional paid in capital	71,625	71,625
Accumulated earnings	3,156,249,379	1,901,428,087
Total stockholders' equity	3,156,325,476	1,901,504,184
Total liabilities and stockholders' equity	37,337,678,591	9,821,208,558

See accompanying notes to the financial statements.

RANBAXY PHARMACEUTICALS INC.
STATEMENT OF INCOME
(All amount in United States dollars, unless otherwise stated)

	<u>For the Year ended, Decemeber 31, 2010</u>	<u>For the Year ended, December 31, 2009</u>
Revenues	\$ 504,709,474	\$247,300,972
Cost of revenues (exclusive of depreciation)	437,250,710	205,484,951
Selling, general and administration expenses (exclusive of depreciation)	22,897,947	16,724,199
Research and development (exclusive of depreciation)	328,053	108,737
Depreciation	1,470,864	1,343,611
Income from operations	42,761,900	23,639,474
Financial expense, net	(624,216)	(1,805,882)
Other income	7,310,518	4,345,043
Income before income taxes	49,448,202	26,178,635
Income tax expense	17,685,265	9,145,941
Net income	31,762,937	17,032,694

IN INR

	<u>For the Year ended, Decemeber 31, 2010</u>	<u>For the Year ended, December 31, 2009</u>
	<u>IN INR</u>	<u>IN INR</u>
Revenues	23,098,584,258	11,318,001,015
Cost of revenues (exclusive of depreciation)	20,011,259,719	9,404,244,816
Selling, general and administration expenses (exclusive of depreciation)	1,047,949,732	765,401,364
Research and development (exclusive of depreciation)	15,013,706	4,976,468
Depreciation	67,315,709	61,491,835
Income from operations	1,957,045,392	1,081,886,531
Financial expense, net	(28,567,932)	(82,648,176)
Other income	334,573,898	198,855,672
Income before income taxes	2,263,051,358	1,198,094,027
Income tax expense	809,385,607	418,574,050
Net income	1,453,665,751	779,519,977

See accompanying notes to the financial statements.

RANBAXY PHARMACEUTICALS INC.
NOTES TO THE FINANCIAL STATEMENTS
(All amount in United States dollars, unless otherwise stated)

1) ORGANIZATION AND NATURE OF OPERATIONS

Incorporation and history

Ranbaxy Pharmaceuticals Inc. ("the Company or RPI") was incorporated on January 1, 2004 in the State of New Jersey. It is a wholly-owned subsidiary Ranbaxy Inc., which is a wholly-owned subsidiary of Ranbaxy (Holdings) U.K. Limited ("RHUK"), which is a wholly-owned subsidiary of Ranbaxy Holdings (Netherlands) BV ("RNBV"), which in turn is a subsidiary of Ranbaxy Laboratories Limited (an Indian company) ("RLL"). Ranbaxy Pharmaceuticals, Inc. (the "Company") is a distributor of prescription pharmaceuticals. The Company obtains its products from its affiliates, RLL and third parties. The Company conducts its operations from a distribution facility in Jacksonville, Florida and sells to customers throughout the United States. The Company distributes its products pursuant to rights obtained through Abbreviated New Drug Application ("ANDA") approvals in the United States, licensing rights obtained from RLL and third parties. The Company's products are subject to the regulatory approval of the United States Food and Drug Administration.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The accompanying financial statements have been prepared in accordance with the accounting principles generally accepted in United States of America and include only the following:

- Balance sheet for the year ended December 31, 2010 and 2009;
- Statements of operations for the year then ended; and
- Significant accounting policies and note on contingencies

Certain disclosures that are required to present fairly the financial statements in conformity with generally accepted accounting principles in the United States of America, have been omitted as these financial statements have been prepared for the limited purpose of the information and use of the management of Ranbaxy Laboratories Limited and for the purpose of meeting the regulatory requirements of India.

RANBAXY PHARMACEUTICALS INC.
NOTES TO THE FINANCIAL STATEMENTS
(All amount in United States dollars, unless otherwise stated)

(b) Use of estimates

The preparation of financial statements in conformity with US GAAP requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the results of operations during the reporting period. The Company's most significant estimates relate to the determination of sales return and allowances for accounts receivables and accrued liabilities, valuation of inventory balances, determination of useful lives for property, plant and equipment and other long lived assets for impairment. The management believes that the estimates used in the preparation of the financial statements are prudent and reasonable. Actual results could differ from these estimates. Appropriate changes in estimates are made as management become aware of changes in circumstances surrounding the estimates. Any changes in estimates are recognized prospectively.

(c) Functional currency

Operations of the Company are carried out in United States of America and accordingly, functional currency of the Company is determined as U.S. Dollar ("dollar" or "\$")

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash and cash on deposits placed with banks in the normal course of business operations. Restricted cash represents deposits against unclaimed dividends and fixed deposits from public; and margin money against guarantees and letters of credit. Restrictions on margin money deposits are released on the expiry of the terms of guarantees and letter of credits.

(e) Revenue recognition

Revenue is generally realized or realizable and earned when persuasive evidence of an arrangement exists, delivery has occurred, the seller's price to the buyer is fixed or determinable, and collectability is reasonably assured. The Company records revenue from product sales when title and risk of ownership have been transferred to the customer, which is typically upon delivery to the customer.

Revenues are shown net of applicable cash and volume discounts, chargeback and other credits/allowances.

Allowances for sales returns are estimated and provided for in the year of sales. Such allowances are made based on the historical trends. The Company has the ability to make a reasonable estimate of the amount of future returns due to large volumes of homogeneous transactions and historical experience with similar types of sales of products. In respect of new products launched or expected to be launched, the sales returns are not expected to be different from the existing products as such products relate to categories where established products exist and are sold in the market. Further, the Company evaluates the sales returns of all the products at the end of each reporting period and necessary adjustments, if any, are made.

RANBAXY PHARMACEUTICALS INC.
NOTES TO THE FINANCIAL STATEMENTS
(All amount in United States dollars, unless otherwise stated)

A chargeback represents an amount payable in the future to a wholesaler for the difference between the invoice price paid to the Company by a wholesaler for a particular product and the negotiated contract price that the wholesaler's customer pays for the product. The Company determines its estimates of the chargeback primarily based on historical experience regarding chargebacks, estimate of the expected wholesaler inventories and current contract prices.

When the Company receives advance payments from customers for sale of products, such payments are reported as advances from customers until all conditions for revenue recognition are met.

Royalty income is recognized in accordance with the terms of their respective contractual agreements when collectability is reasonably assured and revenue can be reasonably measured.

Interest income is recognized on time proportion basis.

(f) Inventories

Inventories consist of finished goods which is stated at the lower of cost or market. The cost of purchased goods is determined using their "moving weighted average" cost.

A write down of inventory to the lower of cost or market value at the close of a fiscal period creates a new cost basis and is not marked up based on changes in underlying facts and circumstances.

Inventories are reviewed on a periodic basis for identification and write-off of slow moving, obsolete and impaired inventory. Such write-downs, if any, are included in cost of revenues.

(g) Shipping and handling expense

Shipping and handling costs incurred to transport products to customers are included in selling, general and administrative expenses.

(h) Research and development

Revenue expenditure on research and development is expensed as incurred. Capital expenditure incurred on equipment and facilities that are acquired or constructed for research and development activities and having alternative future uses is capitalized as tangible assets when acquired or constructed.

(i) Property, plant and equipment

Property, plant and equipment including acquired under capital lease agreements are stated at cost less accumulated depreciation. The Company depreciates property, plant and equipment over the estimated useful life using the straight-line method. Leasehold improvements are amortized over the useful life or the period of lease, as appropriate. Upon retirement or disposal of assets, the cost of the asset and the related accumulated depreciation are eliminated from the accounts and the resulting gain or loss is credited or charged to income.

RANBAXY PHARMACEUTICALS INC.
NOTES TO THE FINANCIAL STATEMENTS
(All amount in United States dollars, unless otherwise stated)

The estimated useful lives of assets are as follows:

Leasehold Improvements	Shorter of remaining lease term or life of the assets
Buildings	39 years
Machinery and equipment	5 - 8 years
Computers equipment	4 years
Software	4 years
Furniture and fixtures	8 years

Advances paid towards the acquisition of property, plant and equipment outstanding at each balance sheet date and the cost of property, plant and equipment not put to use before such date are disclosed under capital work-in-progress.

Expenditures for maintenance and repairs are expensed as incurred. Expenditures for major renewals, betterments and additions are capitalized.

(j) Leases

Leases of property, plant and equipment that transfer substantially all of the benefits or risks and rewards of ownerships are classified as capital leases. The amount recorded is the lesser of the present value of the rental and other lease payments during the lease term, excluding that portion of the payments representing executor costs paid to the lessor, or the asset's fair value. The rental obligations, net of interest charges, are reflected in long term debt.

Leases that do not transfer substantially all of the benefits or risks of ownership are classified as operating leases and recorded as expense on a straight line basis over the lease term, including leases that have rent holidays and / or escalating lease payments.

(k) Impairment of long-lived assets

Long-lived assets and finite life intangibles are reviewed for impairment whenever events or changes in business circumstances indicate that the carrying amount of assets may not be fully recoverable. Each impairment test is based on a comparison of the undiscounted cash flows expected to be generated from the use of the asset to its recorded value. If impairment is indicated the asset is written down to its fair value. Long-lived assets, to be disposed are reported at the lower of the carrying value or fair value less cost to sell.

(l) Income taxes

Ranbaxy Inc., parent company files consolidated federal tax return including income/ losses of its subsidiaries. The tax expense/ benefit has been allocated to respective entities using separate return method and amount payable/ receivable is presented as tax payable/ receivable to/ from parent company in the balance sheet.

Under separate return method the current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the

RANBAXY PHARMACEUTICALS INC.
NOTES TO THE FINANCIAL STATEMENTS
(All amount in United States dollars, unless otherwise stated)

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

Uncertain tax position are recognized and measured using two step approach . The first step is to evaluate the tax position for recognition by determining, based on the technical merits, that the position will be sustained upon examination. The second step is to measure the tax benefit as the largest amount of the tax benefit that is greater than 50% likely of being realized upon settlement. The interest and penalties related to unrecognized tax benefits is included income taxes expense/ benefits for the year.

(m) Business combinations

All business acquisitions are accounted by using the purchase method of accounting whereby all acquired identifiable tangible and intangible assets and assumed liabilities are recorded at acquisition date fair values. The excess of the cost of the acquired business over the fair value of identifiable tangible and intangible net assets purchased is recorded as goodwill.

Goodwill is not amortized but is tested for impairment at year end, relying on a number of factors including operating results, business plans and future cash flows. Recoverability of goodwill is evaluated using a two-step process. The first step involves a comparison of the fair value of a reporting unit with its carrying value. If the carrying amount of the reporting unit exceeds its fair value, the second step of the process involves a comparison of the fair value and carrying value of the goodwill of that reporting unit. If the carrying value of the goodwill of a reporting unit exceeds the fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess. Goodwill of a reporting unit will be tested for impairment between annual rests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount.

3) CONTINGENCIES

- a) On September 16, 2008, Ranbaxy Laboratories Limited ('RLL'), the ultimate holding company received 2 warning letters and an Import Alert from the US FDA, covering 30 generic drugs being manufactured at its Paonta Sahib and Dewas manufacturing facilities in India. The issue raised in the warning letters relate to "Current Good Manufacturing Practice" being followed at the said plants and does not in any way raises questions on product's quality, safety or effectiveness.
- b) In the year 2008, the Department of Justice (DOJ), USA has filed certain charges against RLL citing possible issues with the data submitted by RLL, in support of product filing. RLL continuous to work diligently with the concerned authorities towards resolution of the issue.

RANBAXY PHARMACEUTICALS INC.
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(All amount in United States dollars, unless otherwise stated)

On February 25, 2009, RLL received a letter from the US FDA indicating that the Agency had invoked its Application Integrity Policy ("AIP") against the Paonta Sahib facility (the "facility"). The management of RLL believes that there was no falsification of data generated at the facility and also believes that there is no indication of a pattern and practice of submitting untrue statements of material fact and there was no other improper conduct.

RLL continues to fully cooperate with the concerned authorities for their final clearance, pending which there would be delays for new product approvals and sale of existing products in the United States of America.

- c) The Company is also involved in other lawsuits, claims and proceedings, which arise in the ordinary course of business. While the amounts claimed may be substantial, the ultimate liability is not currently determinable because of considerable uncertainties that exist. Therefore, it is possible that results of operations or liquidity in a particular period could be materially affected by certain contingencies. However, based on facts currently available, management believes that the disposition of matters that are pending or asserted will not have a material adverse affect on the consolidated financial statements.

Note: Conversion Rate against Indian Rupee for the year 2010 and 2009 have been used as under:

- i) Items relating to Profit and Loss account at Average rate : 1 USD = 45.7661**
- ii) Items relating to Balance Sheet at Closing Rate : 1 USD = 44.71**