

## Ranbaxy Inc. & Subsidiaries

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

### WORKING RESULTS

<b>Ranbaxy Inc. &amp; Subsidiaries</b>	<b>USD in Thousand</b>	
	<b>Year ended 12/31/10</b>	<b>Year ended 12/31/09</b>
Net Sales	<b>596,945</b>	348,112
Profit/(Loss) before Interest, Depreciation, Amortization, and Impairment	<b>64,132</b>	40,018
Interest	<b>638</b>	1,813
Exchange Loss/(Gain)- (Net) on Loans	-	-
Depreciation, Amortization and Impairment	<b>18,184</b>	11,193
Profit/(Loss) before Tax	<b>45,310</b>	27,012
Income Tax (benefit)/expense	<b>15,650</b>	9,469
Profit/(Loss) after Tax	<b>29,660</b>	17,543
Balance as per last balance sheet	<b>112,517</b>	94,971
Excess tax benefit upon exercise of stock options	<b>52 -</b>	157
Balance available for appropriation	<b>142,177</b>	112,517

<b>Ranbaxy Inc. &amp; Subsidiaries</b>	<b>IN INR in Thousand</b>	
	<b>Year ended 12/31/10</b>	<b>Year ended 12/31/09</b>
Net Sales	<b>27,319,845</b>	15,931,729
Profit/(Loss) before Interest, Depreciation, Amortization, and Impairment	<b>2,935,072</b>	1,831,468
Interest	<b>29,199</b>	82,974
Exchange Loss/(Gain)- (Net) on Loans	-	-
Depreciation, Amortization and Impairment	<b>832,211</b>	512,260
Profit/(Loss) before Tax	<b>2,073,662</b>	1,236,234
Income Tax (benefit)/expense	<b>716,239</b>	433,359
Profit/(Loss) after Tax	<b>1,357,423</b>	802,875
Balance as per last balance sheet	<b>5,030,635</b>	4,246,153
Excess tax benefit upon exercise of stock options	<b>(2,380)</b>	7,185
Balance available for appropriation	<b>6,506,887</b>	5,149,464

## **Operations**

The Company recorded sales of US \$597 Million [ IN INR 27,322 Million an increase of 70% 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).

The Company also accounted for an impairment of an intangible asset totaling \$4 million [ IN INR 179 million]. In addition, given the uncertainty surrounding the possibility of resuming commercial production in one of its facilities which was issued an FDA Warning Letter at the end of 2008, management decided to fully impair its investment in the facility and consequently wrote-off the net book value of \$2.6 million [ IN INR 116.25] consisting of Goodwill, Property Plant and Equipment and Inventory

The Company continued to expand capacity at its OHM Terminal Road, NJ, facility for the manufacturing of dosage forms.

## **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.

## **Subsidiaries and Joint Ventures**

No new subsidiaries or joint ventures were created 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 : April 21, 2011

**RANBAXY INC.  
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS  
AS AT DECEMBER 31, 2010 AND 2009  
AND FOR THE YEARS 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 consolidated balance sheet of Ranbaxy Inc., and subsidiaries ('the Company') as at December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements 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 consolidated financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatements of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated in 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 on the Company'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 consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, consolidated financial statements for the years ended December 31, 2010 and 2009 referred to above present fairly, in all material respects, the financial position of Ranbaxy Inc., and Subsidiaries as at December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in United States of America.

These consolidated 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 INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(All amount in United States dollars, unless otherwise stated)

	<u>As at December 31, 2010</u>	<u>As at December 31, 2009</u>
<b>ASSETS</b>		
<b>Current assets :</b>		
Cash and cash equivalents	\$10,942,022	\$ 12,696,367
Accounts receivable (Note 5)	81,954,206	120,790,565
Inventories (Note 6)	121,963,962	137,810,379
Deferred tax asset (Note 15)	10,636,305	10,834,883
Income tax receivable (Note 15)	1,365,101	-
Due from related parties (Note 16)	26,890,709	35,084,412
Prepaid and other current assets (Note 7)	2,887,600	3,251,172
<b>Total current assets</b>	<b>256,639,905</b>	<b>320,467,748</b>
Property, plant and equipment, net (Note 8)	95,192,590	90,245,666
Goodwill (Note 9)	7,826,845	9,422,960
Intangible assets, net (Note 10)	21,432,429	27,821,749
Other assets	356,764	352,527
<b>Total assets</b>	<b>381,448,533</b>	<b>448,310,680</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$38,300,480	\$33,358,252
Current portion of long term debt (Note 12)	-	20,000,000
Capital lease obligation, current portion (Note 13)	1,352,333	1,196,140
Dues to related parties (Note 16)	105,123,342	186,185,631
Income taxes payable (Note 15)	-	8,034,563
Accrued expenses and other current liabilities (Note 11)	28,137,899	22,677,870
<b>Total current liabilities</b>	<b>172,914,054</b>	<b>271,452,456</b>
Capital lease obligation, non-current portion (Note 13)	5,672,229	6,948,759
Deferred income taxes (Note 15)	4,477,469	2,507,555
Other liabilities	1,374,314	103,373
<b>Total liabilities</b>	<b>\$184,438,066</b>	<b>\$281,012,143</b>
<b>Stockholders' equity</b>		
Class A Common Stock, 15,000,000 shares authorized: issued and outstanding - 13,000,000 shares as of December 31, 2010 and 2009	\$ 13,000,000	\$ 13,000,000
Class B Common Stock, 1,500 shares authorized: issued and outstanding -519 shares as of December 31, 2010 and 2009		
Additional paid in capital	41,833,464	41,781,154
Accumulated earnings	142,177,003	112,517,383
<b>Total stockholders' equity</b>	<b>197,010,467</b>	<b>167,298,537</b>
<b>Total liabilities and stockholder's equity</b>	<b>381,448,533</b>	<b>448,310,680</b>

See accompanying notes to the consolidated financial statements.

<b>ASSETS</b>	<b>As at December 31, 2010 IN INR</b>	<b>As at December 31, 2009 IN INR</b>
<b>Current assets :</b>		
Cash and cash equivalents	489,217,804	567,654,569
Accounts receivable (Note 5)	3,664,172,550	5,400,546,161
Inventories (Note 6)	5,453,008,741	6,161,502,045
Deferred tax asset (Note 15)	475,549,197	484,427,619
Income tax receivable (Note 15)	61,033,666	-
Due from related parties (Note 16)	1,202,283,599	1,568,624,061
Prepaid and other current assets (Note 7)	129,104,596	145,359,900
<b>Total current assets</b>	<b>11,474,370,153</b>	<b>14,328,113,013</b>
Property, plant and equipment, net (Note 8)	4,256,060,699	4,034,883,727
Goodwill (Note 9)	349,938,240	421,300,542
Intangible assets, net (Note 10)	958,243,901	1,243,910,398
Other assets	15,950,918	15,761,482
<b>Total assets</b>	<b>17,054,563,910</b>	<b>20,043,970,503</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	1,712,414,461	1,491,447,447
Current portion of long term debt (Note 12)	-	894,200,000
Capital lease obligation, current portion (Note 13)	60,462,808	53,479,419
Dues to related parties (Note 16)	4,700,064,621	8,324,359,562
Income taxes payable (Note 15)	-	359,225,312
Accrued expenses and other current liabilities (Note 11)	1,258,045,464	1,013,927,568
<b>Total current liabilities</b>	<b>7,730,987,354</b>	<b>12,136,639,308</b>
Capital lease obligation, non-current portion (Note 13)	253,605,359	310,679,015
Deferred income taxes (Note 15)	200,187,639	112,112,784
Other liabilities	61,445,579	4,621,807
<b>Total liabilities</b>	<b>8,246,225,931</b>	<b>12,564,052,914</b>
<b>Stockholders' equity</b>		
Class A Common Stock, 15,000,000 shares authorized: issued and outstanding - 13,000,000 shares as of December 31, 2010 and 2009	581,230,000	581,230,000
Class B Common Stock, 1,500 shares authorized: issued and outstanding -519 shares as of December 31, 2010 and 2009		
Additional paid in capital	1,870,374,175	1,868,035,395
Accumulated earnings	6,356,733,804	5,030,652,194
<b>Total stockholders' equity</b>	<b>8,808,337,980</b>	<b>7,479,917,589</b>
<b>Total liabilities and stockholder's equity</b>	<b>17,054,563,910</b>	<b>20,043,970,503</b>

**RANBAXY INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(All amount in United States dollars, unless otherwise stated)

	<u>For the year ended, December 31, 2010 IN USD</u>	<u>For the year ended, December 31, 2009 IN USD</u>
Revenues	596,945,411	\$348,111,770
Cost of revenues (exclusive of depreciation as discussed in Note 14)	456,177,602	256,510,265
Sales, general and administration expenses (Note 17) (exclusive of depreciation as discussed in Note 14)	55,951,345	47,417,437
Research and development	20,301,224	6,596,355
Royalty expenses, net (Note 18)	1,273,990	672,455
Depreciation, amortization and impairment (Note 14)	18,184,489	11,193,216
<b>Income from operations</b>	<b>\$45,056,761</b>	<b>\$25,722,042</b>
Financial expense, net	(638,412)	(1,813,377)
Other income, net	891,585	3,103,450
<b>Income before income taxes</b>	<b>45,309,934</b>	<b>27,012,115</b>
Income taxes (expense) (Note 15)	(15,650,314)	(9,469,445)
<b>Net income</b>	<b>\$29,659,620</b>	<b>\$17,542,670</b>
	<u>IN INR</u>	<u>IN INR</u>
Revenues	27,319,863,374	15,931,718,077
Cost of revenues (exclusive of depreciation as discussed in Note 14)	20,877,469,751	11,739,474,439
Sales, general and administration expenses (Note 17) (exclusive of depreciation as discussed in Note 14)	2,560,674,850	2,170,111,163
Research and development	929,107,848	301,889,443
Royalty expenses, net (Note 18)	58,305,554	30,775,643
Depreciation, amortization and impairment (Note 14)	832,233,142	512,269,843
<b>Income from operations</b>	<b>2,062,072,230</b>	<b>1,177,197,546</b>
Financial expense, net	(29,217,627)	(82,991,193)
Other income, net	40,804,368	142,032,803
<b>Income before income taxes</b>	<b>2,073,658,970</b>	<b>1,236,239,156</b>
Income taxes (expense) (Note 15)	(716,253,836)	(433,379,567)
<b>Net income</b>	<b>1,357,405,135</b>	<b>802,859,589</b>

See accompanying notes to the consolidated financial statements.

**RANBAXY INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME**  
**(All amount in United States dollars, unless otherwise stated)**

	<u>Common stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>paid in</u>	<u>earnings</u>	
			<u>capital</u>		
Balance as of January 1, 2009	13,000,000	\$13,000,000	\$41,623,900	\$94,974,713	\$149, 598,613
Net earnings for the year ended December 31, 2009	-	-	-	17,542,670	17,542,670
Excess tax benefit upon exercise of stock options	-	-	157,254		157,254
<b>Balance as of December 31, 2009</b>	<b><u>13,000,000</u></b>	<b><u>\$13,000,000</u></b>	<b><u>\$ 41,781,154</u></b>	<b><u>\$112,517,383</u></b>	<b><u>\$167, 298,537</u></b>

See accompanying notes to the consolidated financial statements.

IN INR

	<u>Common stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>paid in</u>	<u>Earnings</u>	
			<u>capital</u>		
Balance as of January 1, 2009	13,000,000	581,230,000	1,861,004,569	4,246,319,418	6,688,553,987
Net earnings for the year ended December 31, 2009	-	-	-	784,332,776	784,332,776
Excess tax benefit upon exercise of stock options	-	-	7,030,826		7,030,826
<b>Balance as of December 31, 2009</b>	<b><u>13,000,000</u></b>	<b><u>581,230,000</u></b>	<b><u>1,868,035,395</u></b>	<b><u>5,030,652,194</u></b>	<b><u>7,479,917,589</u></b>

**RANBAXY INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME**  
(All amount in United States dollars, unless otherwise stated)

	Common stock		Additional paid in capital	Accumulated earnings	Total
	Shares	Amount			
Balance as of January 1, 2010	13,000,000	\$13,000,000	\$ 41,781,154	112,517,383	\$167,298,537
Net earnings for the year ended December 31, 2010	-	-	-	29,659,620	29,659,620
Excess tax benefit upon exercise of stock options	-	-	52,310	-	52,310
<b>Balance as of December 31, 2010</b>	<b>13,000,000</b>	<b>\$13,000,000</b>	<b>\$ 41,833,464</b>	<b>\$ 142,177,003</b>	<b>\$197,010,467</b>

See accompanying notes to the consolidated financial statements.

	Common stock		Additional paid in capital	Accumulated earnings	IN INR
	Shares	Amount			Total
Balance as of January 1, 2010	13,000,000	581,230,000	1,868,035,395	5,030,652,194	7,479,917,589
Net earnings for the year ended December 31, 2010	-	-	-	1,326,081,610	1,326,081,610
Excess tax benefit upon exercise of stock options	-	-	2,338,780	-	2,338,780
<b>Balance as of December 31, 2010</b>	<b>13,000,000</b>	<b>581,230,000</b>	<b>1,870,374,175</b>	<b>6,356,733,804</b>	<b>8,808,337,980</b>

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

	<u>For the year ended, December 31, 2010</u>	<u>For the year ended, December 31, 2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$29,659,620	\$17,542,670
<b>Adjustments to reconcile net income to net cash provided by operating activities</b>		
Depreciation, amortization and impairment	18,184,489	11,193,216
Deferred income taxes	2,168,492	1,362,559
Allowance for doubtful accounts receivable	(1,116,292)	(2,766,415)
Loss on disposal of tangible fixed assets	12,732	-
Inventory write-downs	(12,412,725)	(14,427,133)
<b>Changes in assets and liabilities</b>		
Accounts receivable	39,952,651	(117,423,089)
Inventories	28,259,142	(58,175,520)
Prepaid expenses and other assets	359,335	5,766,698
Accounts payable, accrued expenses and other liabilities	11,673,198	20,621,569
Income tax receivables / payables	(9,399,664)	14,140,891
Due to /from related parties	(72,868,586)	194,228,565
<b>Net cash provided by operating activities</b>	<u><b>34,472,392</b></u>	<u><b>72,064,011</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipments	(15,137,905)	(29,904,189)
Proceed from sale or disposal of tangible assets	55,000	57,035
<b>Net cash used in investing activities</b>	<u><b>(15,082,905)</b></u>	<u><b>(29,847,154)</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of lease obligation	(1,196,139)	(767,600)
Excess of tax benefit on exercise of stock options	52,310	157,254
Repayment of term loans	(20,000,000)	(30,000,000)
<b>Net cash used in investing activities</b>	<u><b>(21,143,829)</b></u>	<u><b>(30,610,346)</b></u>
<b>Net increase /(decrease) in cash and cash equivalents</b>	<b>(1,754,345)</b>	<b>11,606,511</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of the year	12,696,367	1,089,856
End of the year	<u><b>10,942,022</b></u>	<u>12,696,367</u>
<b>SUPPLEMENTARY CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	\$58,002	\$1,996,518
Cash paid (net of refunds) during the year for income taxes	21,560,319	25,380

See accompanying notes to the consolidated financial statements

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

	<u>For the year ended, December 31, 2010</u>	<u>For the year ended, December 31, 2009</u>
	IN INR	IN INR
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	1,326,081,610	784,332,776
<b>Adjustments to reconcile net income to net cash provided by operating activities</b>		
Depreciation, amortization and impairment	813,028,503	500,448,687
Deferred income taxes	96,953,277	60,920,013
Allowance for doubtful accounts receivable	(49,909,415)	(123,686,415)
Loss on disposal of tangible fixed assets	569,248	-
Inventory write-downs	(554,972,935)	(645,037,116)
<b>Changes in assets and liabilities</b>		
Accounts receivable	1,786,283,026	(5,249,986,309)
Inventories	1,263,466,239	(2,601,027,499)
Prepaid expenses and other assets	16,065,868	257,829,068
Accounts payable, accrued expenses and other liabilities	521,908,683	921,990,350
Income tax receivables / payables	(420,258,977)	632,239,237
Due to /from related parties	(3,257,954,480)	8,683,959,141
<b>Net cash provided by operating activities</b>	<u>1,541,260,646</u>	<u>3,221,981,932</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipments	(676,815,733)	(1,337,016,290)
Proceed from sale or disposal of tangible assets	2,459,050	2,550,035
<b>Net cash used in investing activities</b>	<u>(674,356,683)</u>	<u>(1,334,466,255)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of lease obligation	(53,479,375)	(34,319,396)
Excess of tax benefit on exercise of stock options	2,338,780	7,030,826
Repayment of term loans	(894,200,000)	(1,341,300,000)
<b>Net cash used in investing activities</b>	<u>(945,340,595)</u>	<u>(1,368,588,570)</u>
<b>Net increase /(decrease) in cash and cash equivalents</b>	(78,436,765)	518,927,107
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of the year	567,654,569	48,727,462
End of the year	<u>489,217,804</u>	<u>567,654,569</u>
<b>SUPPLEMENTARY CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	2,593,269	89,264,320
Cash paid (net of refunds) during the year for income taxes	963,961,862	1,134,740

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

**1. ORGANIZATION AND NATURE OF OPERATIONS**

*Incorporation and history*

Ranbaxy, Inc. (“Ranbaxy”) was incorporated on July 1, 1994 in the State of Delaware. It is a wholly-owned subsidiary of Ranbaxy (Holdings) U.K. Limited (“RHUK”), which is a wholly-owned subsidiary of Ranbaxy (Netherlands) BV (“RNBV”), which in turn is a subsidiary of Ranbaxy Laboratories Limited (an Indian company) (“RLL”). Ranbaxy, Inc. and its Subsidiaries (the “Company”) is a manufacturer and distributor of over-the-counter and prescription pharmaceuticals. The Company obtains its products from its owned manufacturing plants, RLL and third parties. The Company operates two manufacturing facilities in New Jersey and one in New York 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.

The consolidated financial statements include the accounts of Ranbaxy, Inc. and the following subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

<b>Subsidiaries</b>	<b>Ownership</b>
Ranbaxy Pharmaceuticals, Inc.	100%
Ranbaxy USA, Inc.	100%
Ohm Laboratories, Inc.	100%
Ranbaxy Laboratories, Inc.	100%
Ranbaxy Signature LLC	67.5%

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*(a) Basis of preparation*

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP) to reflect the financial position and results of operations of Ranbaxy Inc. and subsidiaries (collectively hereinafter referred to as “the Company”). The consolidated financial statements are prepared in U.S. Dollars.

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.

*(b) Principles of consolidation*

The consolidated financial statements are prepared in United States Dollar and include the accounts of the Company and all of its subsidiaries in which a controlling interest is maintained. Intercompany balances and transactions are eliminated. Controlling interest is determined by majority ownership interest and the absence of substantive third-party participating rights or, in the case of variable interest entities, by majority exposure to expected losses, residual returns or both.

*(c) Use of estimates*

The preparation of consolidated 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 consolidated 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 intangible assets, and other long lived assets for impairment. The management believes that the estimates used in the preparation of the consolidated 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.

*(d) Functional currency*

Operations of all consolidated entities are carried out in United States of America and accordingly, functional currency of each entity is determined as U.S. Dollar (“dollar” or “\$”)

*(e) 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.

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Restrictions on margin money deposits are released on the expiry of the terms of guarantees and letter of credits.

*(f) Inventories*

Inventories consist of raw materials, work-in-process and finished goods are stated at the lower of cost or market. Manufactured finished goods and work-in-process inventory are valued at standard cost as adjusted for actuals, using the first-in, first-out method. The cost of raw materials and 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) 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 value added tax, 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.

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.

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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.

*(h) Shipping and handling expense*

Shipping and handling costs incurred to transport products to customers are included in cost of revenues.

*(i) 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.

*(j) 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 and accumulated depreciation are eliminated from the accounts and the resulting gain or loss is credited or charged to operations.

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. The interest cost incurred for funding an asset during its construction period is capitalized based on the actual investment in the asset and the average cost of funds. The capitalized interest is included in the cost of the relevant asset and is depreciated over the estimated useful life of the asset.

Expenditures for maintenance and repairs are expensed as incurred. Expenditures for major renewals, betterments and additions are capitalized. When assets are retired or otherwise disposed of, the cost of the asset and related accumulated depreciation and amortization are eliminated from the accounts. Any gain or loss on disposition is credited or charged to income.

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*(k) 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.

*(l) 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.

*(m) Income taxes*

Income taxes are accounted for using the asset and liability 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 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.

The Company follows a two-step approach to recognize and measure uncertain tax positions. 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.

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*(n) Business combinations, goodwill and other intangibles*

All business acquisitions are accounted for 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 on an annual basis, 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.

Intangible assets are amortized over their respective individual estimated useful lives in proportion to the economic benefits consumed in each period. The estimated useful lives of the intangible assets are as follows:

Customer contracts and relationship intangibles	4 to 10 years
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The estimated useful life of an identifiable intangible asset is based on a number of factors including the effects of obsolescence, demand, competition and other economic factors (such as the stability of the industry, and known technological advances) and the level of maintenance expenditures required to obtain the expected future cash flows from the asset.

*(o) Reclassifications*

Certain reclassifications have been made in the financial statements of prior period to conform to the classifications used in the current year. These changes had no impact on previously reported net income or stockholders' equity.

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**3) CONINGENCIES AND COMMITMENT**

a) On September 16, 2008, Ranbaxy Laboratories Limited ('RLL'), the parent 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. In 2008, consequent to Import Alert the Company was not able to import the products covered under Import Alert and accordingly it resulted in some changes in the Company's business relationship with its customers. Due to this change in the circumstances, the Company increased its reserves on sales return and inventory obsolescence as of December 31, 2009, amounting to approximately \$16,255,298 [INR 726,774,374] and \$25,708,944 [INR 1,149,446,886], respectively, of which \$38,930,220 [INR 1,740,570,136] was charged to RLL and the remaining balance of \$3,034,022 [INR 135,651,124] was charged to the consolidated statement of operations. The amount charged to RLL was recorded as reduction of cost of revenues. In 2010, there were no adjustments made to either increase the sales return or increase the inventory obsolescence due to this change. The basis and assumptions used by management in calculating the reserves includes significant management judgment and estimates.

During the year ended December 31, 2009, the Company has performed re-assessment of carrying amount of these reserves and determined that a portion of the reserve is no longer required. Accordingly, reserves on sales return and inventory obsolescence amounting to \$13,951,409 [INR 623,767,496] and \$7,297,894 [INR 326,288,841] were reversed through adjustment to revenues and cost of revenues, respectively. Consequently, an amount of \$21,249,303 [INR 950,056,337] which was charged back to RLL in 2008 was also reversed through adjustment to cost of revenues in 2009.

- 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.
- c) 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.
- d) On December 21, 2009, the Gloversville unit of Ohm Laboratories Inc. (Ohm), subsidiary of Ranbaxy Inc., received a warning letter from the US FDA. The issue raised in warning letter relates to "Current Good Manufacturing Practice" being followed at the Gloversville unit. This unit has generic and private branded labels over the counter (OTC) drugs and contributes less than 10% of the sales of the Company. The Company continuous to work diligently with the concerned authorities towards resolution of the issue.

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- e) Additionally, 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 effect on the consolidated financial statements.
- f) As of December 31, 2010 and 2009, the Company had committed to spend \$3,847,142 [INR 172,005,719] and \$1,447,764 [INR 64,729,528] respectively under agreements to purchase property, plant and equipment. This amount is net of capital advances paid in respect of these purchases.

**4) FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISK**

The cash and cash equivalent balances as of December 31, 2010 and 2009 were principally held by one institution, and are in excess of their respective Federal Deposit Insurance Corporation ("FDIC") insurance limits.

For the year ended December 31, 2010 and 2009, the Company's two largest customer accounted for 20 and 15% individually of the Company's net revenues in 2010 and one customer accounted for 12% of the Company's revenue in 2009. No other individual customers accounted for more than 10% net revenues.

The Company is subject to a concentration of credit risk with respect to its accounts receivable balance, all of which is due from wholesalers, distributors, chain drug stores and service providers in the health care and pharmaceutical industries throughout the U.S. Approximately 50% and 12% of the gross accounts receivable balance consists of amounts due from the three largest customers as of December 31, 2010 and 2009, respectively. The Company performs ongoing credit evaluations of its customers and maintains an allowance for potential uncollectible accounts. Actual losses from uncollectible accounts have been minimal.

Certain of the Company's finished product and raw materials are obtained from single source suppliers. Although the Company seeks to identify more than one source for its various finished products and raw materials, loss of a single source supplier could have an adverse effect on the Company's result of operations, financial condition and cash flows. Third party manufactured products accounted for approximately 14% and 56% of the product net revenues in 2010 and 2009. No single third-party vendor accounted for more than 10% of total product purchases for the years ended December 31, 2010 and 2009.

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**5) ACCOUNTS RECEIVABLE, NET**

Accounts receivable comprise the following:

	<u>As of December 31, 2010</u>	<u>As of December 31, 2009</u>
Accounts receivable, gross	\$ 133,336,243	\$ 141,580,079
Reserves and accruals:		
-Incentives, commission and discount	2,151,894	2,293,755
-Direct and indirect rebates	3,265,571	4,056,418
-Chargeback accrual	5,688,902	5,338,507
-Doubtful accounts receivable	1,756,192	2,872,484
-Other accruals	38,519,578	6,228,350
	<u>51,382,037</u>	<u>20,789,514</u>
Accounts receivable, net	<b>\$ 81,954,206</b>	<b>\$ 120,790,565</b>

The activity in the allowance for doubtful accounts receivable and sales returns is given below:

	<b>As of December 31, 2010</b>		<b>As of December 31, 2009</b>	
	<b>Doubtful accounts receivable</b>	<b>Sales returns</b>	<b>Doubtful accounts receivable</b>	<b>Sales returns</b>
Balance at the beginning of the year	\$2,872,484	\$13,184,827	\$5,638,899	\$26,215,427
Additional provision/ (credits) net	(1,116,292)	(2,087,274)	(2,766,415)	(13,030,600)
Balance at the end of the year	<u>\$1,756,192</u>	<u>\$11,097,553</u>	<u>\$2,872,484</u>	<u>\$13,184,827</u>

	<u>As of December 31, 2010</u>	<u>As of December 31, 2009</u>
	<b>IN INR</b>	<b>IN INR</b>
Accounts receivable, gross	5,961,463,425	6,330,045,332
Reserves and accruals:		
-Incentives, commission and discount	96,211,181	102,553,786

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-Direct and indirect rebates	146,003,679	181,362,449
-Chargeback accrual	254,350,808	238,684,648
-Doubtful accounts receivable	78,519,344	128,428,760
-Other accruals	1,722,210,332	278,469,529
	<u>2,297,290,874</u>	<u>929,499,171</u>
Accounts receivable, net	3,664,172,550	5,400,546,161

The activity in the allowance for doubtful accounts receivable and sales returns is given below:

	As of December 31, 2010		As of December 31, 2009	
	Doubtful accounts receivable	Sales returns	Doubtful accounts receivable	Sales returns
Balance at the beginning of the year	128,428,760	603,618,111	252,115,174	1,199,777,854
Additional provision/ (credits) net	(49,909,415)	(95,526,391)	(123,686,415)	(596,359,743)
Balance at the end of the year	<u>78,519,344</u>	<u>507,891,720</u>	<u>128,428,760</u>	<u>603,418,111</u>

**6) INVENTORIES , NET**

Inventories comprise the following:

	As of December 31, 2010	As of December 31, 2009
Raw materials	\$ 13,486,607	\$ 29,500,355
Work-in-process	22,116,502	12,024,517
Finished goods	86,360,853	96,285,507
<b>Inventory, net</b>	<u><b>\$ 121,963,962</b></u>	<u><b>\$137,810,379</b></u>

*IN INR*

	As of December 31, 2010	As of December 31, 2009
Raw materials	602,986,199	1,318,960,872
Work-in-process	988,828,804	537,616,155
Finished goods	<u>3,861,193,738</u>	<u>4,304,925,018</u>

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<b>Inventory, net</b>	5,453,008,741	6,161,502,046
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As of December 31, 2010 and 2009, the reserve balance for fall in the market value/ write-off of slow-moving and obsolete inventory was \$15,091,467 [INR 690,677,588] (also refer note 9) and \$27,504,192 [INR 1,258,759,601].

**7) PREPAID AND OTHER CURRENT ASSETS**

Prepaid and other current assets comprise of the following:

	As of December 31, 2010	As of December 31, 2009
Prepaid expenses	\$ 2,236,456	\$ 2,185,470
Deposits with suppliers	74,244	145,240
Other receivables#	576,900	920,462
<b>Total prepaid and other current assets</b>	<b>\$ 2,887,600</b>	<b>\$ 3,251,172</b>

#Pursuant to an agreement with a customer, the customer is entitled to hold fourteen days of the average chargeback over the last six months. This amount is adjusted on a quarterly basis and is a reconciliation item between the two companies.

	IN INR	
	As of December 31, 2010	As of December 31, 2009
Prepaid expenses	99,991,948	97,712,364
Deposits with suppliers	3,319,449	6,493,680
Other receivables#	25,793,199	41,153,856
<b>Total prepaid and other current assets</b>	<b>129,104,596</b>	<b>145,359,900</b>

**8. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment comprises of the following:

	As of December 31, 2010	As of December 31, 2009
Land	\$585,000	\$585,000
Building/improvement	28,470,446	13,105,380

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	<b>As of December 31, 2010</b>	<b>As of December 31, 2009</b>
Leasehold improvements	37,660,898	36,883,209
Machinery and equipment	61,192,824	42,200,664
Computer equipment	4,782,739	3,774,819
Software	3,335,235	3,023,939
Furniture and fixtures	3,688,216	3,529,506
Capital work in progress	7,280,628	29,191,599
	<u>146,995,986</u>	<u>132,294,116</u>
Accumulated depreciation	(51,803,396)	(42,048,450)
<b>Total property, plant and equipment, net</b>	<b><u>\$95,192,590</u></b>	<b><u>\$90,245,666</u></b>
	<b>IN INR</b>	<b>IN INR</b>
Land	26,155,350	26,155,350
Building/improvement	1,272,913,641	585,941,540
Leasehold improvements	1,683,818,750	1,649,048,274
Machinery and equipment	2,735,931,161	1,886,791,687
Computer equipment	213,836,261	168,772,157
Software	149,118,357	135,200,313
Furniture and fixtures	164,900,137	157,804,213
Capital work in progress	325,516,878	1,305,156,391
	<u>6,572,190,534</u>	<u>5,914,869,926</u>
Accumulated depreciation	(2,316,129,835)	(1,879,986,200)
<b>Total property, plant and equipment, net</b>	<b><u>4,256,060,699</u></b>	<b><u>4,034,883,727</u></b>

Capital work in progress primarily comprises expansion of the Company's manufacturing activities and includes building, machinery and equipment which have not been completed and put to use as of the end of the year.

Depreciation expense is \$10,199,055 [INR 466,770,971] and \$7,670,297 [INR 351,039,580] for the year ended December 31, 2010 and 2009.

Total interest capitalized in connection with ongoing construction activities is \$Nil and \$665,297 [INR 30,448,049] for the year ended December 31, 2010 and 2009.

During the year ended December 31, 2010 and 2009 assets with cost of \$511,841 [INR 22,884,411] and \$3,056,974 [INR 136,677,308] and accumulated depreciation of \$444,109 [INR 19,856,113] and \$2,999,940 [INR 134,127,317] were written off.

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Property, plant and equipment include assets held under capital leases, which comprise:

	<u>As of December 31, 2010</u>	<u>As of December 31, 2009</u>
Leasehold improvements	\$12,444,082	\$12,444,082
Computers and Equipment	356,654	219,420
	<u>12,800,736</u>	<u>12,663,502</u>
Accumulated depreciation	7,442,665	6,214,197
	<u>\$5,358,071</u>	<u>\$ 6,449,305</u>

	<u>As of December 31, 2010</u>	<u>As of December 31, 2009</u>
	IN INR	IN INR
Leasehold improvements	556,374,906	556,374,906
Computers and Equipment	15,946,000	9,810,268
	<u>572,320,907</u>	<u>566,185,174</u>
Accumulated depreciation	332,761,552	277,836,748
	<u>239,559,354</u>	<u>288,348,427</u>

**9. GOODWILL**

The Company has a Goodwill balance of \$ 7,826,846 [INR 349,938,285] and \$ 9,422,961 [INR 421,300,586] as of December 31, 2010 and 2009, respectively. Goodwill relates to the acquisition in previous years of HMS Sales and Marketing Inc. amounting to \$ 412,545 [INR 18,444,887] and \$ 412,545 [INR 18,444,887] and acquisition of Ohm Laboratories Inc.'s New Jersey facility and Gloversville facility amounting to \$ 7,414,301 [INR 331,493,398] and Nil and \$7,414,301 [INR 331,493,398] and 1,596,115 [INR 71,362,302] as of December 31, 2010 and December 31, 2009.

In December 2008, the Company received a Warning Letter from the FDA relating to production practices in Gloversville facility which has prevented the approval and manufacturing of new products in that facility. In an effort to address the root causes of the issues that led to the FDA action, management engaged the services of an outside third-party global management consultant to review the operating and compliance procedures, train employees, and enhance the quality of the entire manufacturing process. In spite of management's efforts, the FDA is yet to approve the facility for new products and consequently, management has decided to primarily suspend production of commercial quantities in Gloversville facility. Given the uncertainty surrounding the possibility of resuming commercial production in Gloversville facility and the date of a re-inspection of that facility, management considered to fully impair its investment in Gloversville facility.

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Consequently, Management decided to write-off the net book value of \$2,635,133 [INR 117,816,796] consisting of Goodwill, Property Plant and Equipment and Inventory as illustrated below.

	<b>As of December 31, 2010</b>		
	Gross carrying amount	Accumulated amortization	Net
Goodwill	\$1,596,115	\$-	1,596,115
Property, Plant and Equipment	1,188,283	(430,486)	757,797
Inventory	1,639,748	(1,358,527)	281,221
	<b>\$4,424,146</b>	<b>\$ (1,789,013)</b>	<b>\$2,635,133</b>

IN INR

	<b>As of December 31, 2010</b>		
	Gross carrying amount	Accumulated amortization	Net
	IN INR	IN INR	IN INR
Goodwill	71,362,302	-	71,362,302
Property, Plant and Equipment	53,128,133	(19,247,029)	33,881,104
Inventory	73,313,133	(60,739,742)	12,573,391
	<b>197,803,568</b>	<b>(79,986,771)</b>	<b>117,816,796</b>

**10. INTANGIBLE ASSETS**

Information regarding the Company's intangible assets acquired either individually, with a group of other assets or in a business combination is as follows:

	<b>As of December 31, 2010</b>		
	Gross carrying amount	Accumulated amortization	Net
Trademarks	\$13,834,232	\$7,768,417	6,065,815
Product formulation	17,161,256	4,099,635	13,061,621
Supply Agreement	3,028,457	723,464	2,304,993
Product license and technology	5,009,665	5,009,665	-
<b>Total intangible assets</b>	<b>\$39,033,610</b>	<b>\$ 17,601,181</b>	<b>\$21,432,429</b>

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	IN INR		
	As of December 31, 2010		
	Gross carrying amount	Accumulated amortization	Net
	IN INR	IN INR	IN INR
Trademarks	618,528,513	347,325,924	271,202,589
Product formulation	767,279,756	183,294,681	583,985,075
Supply Agreement	135,402,312	32,346,075	103,056,237
Product license and technology	223,982,122	223,982,122	-
<b>Total intangible assets</b>	<b>1,745,192,703</b>	<b>786,948,803</b>	<b>958,243,901</b>

	IN INR		
	As of December 31, 2009		
	Gross carrying amount	Accumulated amortization	Net
	IN INR	IN INR	IN INR
Trademarks	\$13,834,232	\$7,022,075	6,812,157
Product formulation	17,161,256	2,955,550	14,205,706
Supply Agreement	3,028,457	521,567	2,506,890
Product license and technology	5,009,665	712,669	4,296,996
	<b>\$39,033,610</b>	<b>\$ 11,211,861</b>	<b>\$27,821,749</b>

	IN INR		
	Gross carrying amount	Accumulated amortization	Net
	IN INR	IN INR	IN INR
Trademarks	618,528,513	313,956,973	304,571,539
Product formulation	767,279,756	132,142,641	635,137,115
Supply Agreement	135,402,312	23,319,261	112,083,052
Product license and technology	223,982,122	31,863,431	192,118,691
	<b>1,745,192,703</b>	<b>501,282,305</b>	<b>1,243,910,398</b>

Amortization expense for intangibles is \$2,342,806 [INR 107,221,094] and \$2,601,760 [INR 119,072,408] for the year ended December 31, 2010 and 2009. During 2010 and 2009, the Company recorded impairment charges totaling \$4,046,513 [INR 185,193,119] and \$921,159 [INR 42,157,855].

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The estimated amortization schedule for the intangible assets is set out below:

Year ending December 31, 2010	
2011	\$2,092,323
2012	2,092,323
2013	2,092,323
2014	2,092,323
2015	1,835,413
2016 and thereafter	11,227,725
	<b>\$21,432,430</b>

	IN INR
Year ending December 31, 2010	
2011	93,547,761
2012	93,547,761
2013	93,547,761
2014	93,547,761
2015	82,061,315
2016 and thereafter	501,991,585
	958,243,945

As of December 31, 2009, the carrying value of Proctosol (an acquisition in April 2000 from Signature Pharmaceuticals) was \$2,719,537 [INR 121,590,499] and the total expected future cash flows based on management's assessment was \$1,798,378 [INR 80,405,480]. The projected decline in future net cash flows is because of an expected reduction in sales revenue due to a price increase by Taro Pharmaceutical and consequent loss of accounts. The resultant decline in sales created diminished forecasted margins for this product and, as such, the Company has made a decision to write down the asset to its total expected future cash flows. As a result, an impairment charge of \$921,159 [INR 42,157,855] is recorded in the year ended December 31, 2009. No impairment charge was recorded for Proctosol in 2010.

In July 2007, the Company acquired the right to assume the benefits and responsibilities of a supply agreement for the Isoptin and Verapamil brand of products from FSC. In 2008, the Company commenced the sale of the generic version, Verapamil, which resulted in a decrease in the quantity of branded sales and an increase in the sale of the lower priced generic versions. In March 2010, the Company's "dissolution" testing confirmed that the quality of the product complies with the approved specifications in the ANDA (Abbreviated New Drug Application) filed with the FDA was not successful as two batches failed the test at the expiry date. The failure implies a reduction in the shelf life/validity period of the product and in August 2010, Management decided to discontinue to manufacture and sale of the FSC basket of products. Consequently Management decided to consider the intangibles in relation to Verapamil and Isoptin brand of products as fully impaired and recorded impairment loss of \$4,046,513 [INR 185,193,119].

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**11. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities comprise of the following:

	<u>As of December 31, 2010</u>	<u>As of December 31, 2009</u>
Royalties payable	2,474,969	2,540,475
Accrued payables	14,580,734	6,322,692
Bonus and vacation	6,212,587	9,032,054
Other Accruals	4,869,609	4,782,649
<b>Total accrued expenses and other current liabilities</b>	<b><u>\$ 28,137,899</u></b>	<b><u>\$22,677,870</u></b>

Other accruals includes amounts due to indirect customers for which no underlying accounts receivable exists and is principally comprised of Medicaid rebates and rebates due under other U.S. Government pricing programs, such as TriCare, and the Department of Veterans Affairs.

	<b>IN INR</b>	
	<u>As of December 31, 2010</u>	<u>As of December 31, 2009</u>
	IN INR	IN INR
Royalties payable	110,655,864	113,584,637
Accrued payables	651,904,617	282,687,559
Bonus and vacation	277,764,765	403,823,134
Other Accruals	217,720,218	213,832,237
<b>Total accrued expenses and other current liabilities</b>	<b><u>1,258,045,464</u></b>	<b><u>1,013,927,568</u></b>

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**12. LONG TERM DEBT**

Long-term debt consists of the following:

	<u>As of December 31, 2010</u>	<u>As of December 31, 2009</u>
Term loan from bank (a)	-	20,000,000
	-	20,000,000
Less: Current portion		
Term loan from bank (a)	-	20,000,000
<b>Total long term debt</b>	<b>\$ -</b>	<b>\$ -</b>

IN INR

	<u>As of December 31, 2010</u>	<u>As of December 31, 2009</u>
	IN INR	IN INR
Term loan from bank (a)	-	894,200,000
	-	894,200,000
Less: Current portion		
Term loan from bank (a)	-	894,200,000
<b>Total long term debt</b>	<b>\$ -</b>	<b>\$ -</b>

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

	<u>For the year ended December 31, 2010</u>	<u>For the year ended December 31, 2008</u>
Term loan from bank (a)	-	1.0841%

- (a) In August 2007, the Company entered into an agreement with a bank for an uncommitted credit facility of \$20,000,000 [INR 894,200,000] that would be available for direct borrowing. The interest rate for this facility is 0.80% above LIBOR. Interest rate will be determined at the beginning of each interest period (3, 6, or 12 months). The loan was originally drawn down on January 16, 2008 with a maturity date after 3 years from the draw down date. However, during the year ended December 31, 2009, the terms of the payment of loan were revised and the Company agreed to prepay the loan in the month of January, 2010 and the Company paid off the same in January, 2010.

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**13. LEASES**

*Capital lease obligation*

The Company has taken building and equipment on leases which initially expires up to 2015 with various purchase options thereafter. These arrangements are recorded as capital lease transactions.

The following is a schedule by years of future minimum lease payments under capital leases, together with the present value of net minimum lease payments as of December 31, 2010:

<b>Year ended December 31,</b>	
2011	\$1,871,574
2012	1,882,311
2013	1,891,628
2014	1,930,768
2015	819,820
2016 and thereafter	-
Total minimum lease payments	8,396,101
Less: amount representing interest	1,371,539
Present value of net minimum lease payments	<b>\$ 7,024,562</b>
Current portion	\$ 1,352,333
Non-current portion	\$ 5,672,229
	<i>IN INR</i>

<b>Year ended December 31,</b>	
2011	83,678,074
2012	84,158,125
2013	84,574,688
2014	86,324,637
2015	36,654,152
2016 and thereafter	-
Total minimum lease payments	375,389,676
Less: amount representing interest	61,321,509
Present value of net minimum lease payments	314,068,167
Current portion	60,462,808
Non-current portion	253,605,359
<i>Operating leases</i>	

The Company leases office facilities under non-cancelable operating lease agreements with a lease term of 3 to 6 years renewable at option of the lessor.

Rental expense under these leases is \$1,522,709 [INR 69,688,452] for the year ended December 31, 2010 and \$1,239,120 [INR 56,709,690] for the year ended December 31, 2009.

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Future minimum lease payments as of December 31, 2010 for such non-cancelable operating leases are as follows:

Years ending December 31,	
2011	1,242,296
2012	1,092,732
2013	383,796
Total minimum payments	<u><u>\$2,718,824</u></u>

*IN INR*

Years ending December 31,	
2011	55,543,054
2012	48,856,048
2013	17,159,519
Total minimum payments	<u><u>121,558,621</u></u>

**14. DEPRECIATION, AMORTIZATION AND IMPAIRMENT**

The Company's underlying accounting records do not contain an allocation of depreciation, amortization and impairment between "cost of revenues", "sales, general and administration expenses" and "research and development charges". As such, the charge for depreciation has been presented as a separate line item on the face of the consolidated statement of operations.

**15. INCOME TAXES**

The provision for income tax expense (benefit) is as follows:

	<u>For the year ended December 31, 2010</u>	<u>For the year ended December 31, 2009</u>
<b>Federal</b>		
Current	\$9,256,418	\$8,415,702
Deferred	4,773,056	765,407
	<u><b>14,029,474</b></u>	<u><b>9,181,109</b></u>
<b>State</b>		
Current	4,225,403	(308,817)
Deferred	(2,604,563)	597,153
	<u>1,620,840</u>	<u>288,336</u>
<b>Total other expenses, net</b>	<u><u><b>\$ 15,650,314</b></u></u>	<u><u><b>\$ 9,469,445</b></u></u>

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	IN INR	
	For the year ended December 31, 2010	For the year ended December 31, 2009
<b>Federal</b>	<b>IN INR</b>	<b>IN INR</b>
Current	423,630,152	385,153,859,
Deferred	218,444,158	35,029,693
	<u>642,074,310</u>	<u>420,183,553</u>
<b>State</b>		
Current	193,380,216	(14,133,350)
Deferred	(119,200,691)	27,329,364
	<u>74,179,526</u>	<u>13,196,014</u>
<b>Total other expenses, net</b>	<u><u>716,253,836</u></u>	<u><u>433,379,567</u></u>

A reconciliation of income taxes, as reflected in the accompanying statements, with the statutory Federal income tax rate of 35% is as follows:

	For the year ended December 31, 2010	For the year ended December 31, 2009
Book pretax net income - expense / (benefit)	35.00%	35.00%
State tax expense	0.49	1.22
Research and development credits, etc.	(2.87)	.38
Provision for uncertain tax positions	2.56	(1.18)
Change in valuation allowance	-	-
Other	(.63)	(.34)
	<b>34.54%</b>	<b>35.08%</b>

The following is a summary of items giving rise to deferred tax benefits (liabilities) at December 31, 2010 and 2009:

	IN INR	
	For the year ended December 31, 2010	For the year ended December 31, 2009
Book pretax net income - expense / (benefit)	35.00%	35.00%
State tax expense	22.43	55.83
Research and development credits, etc.	(131.35)	17.39
Provision for uncertain tax positions	117.16	(54)
Change in valuation allowance	-	-
Other	(28.83)	(15.56)
	<b>34.54%</b>	<b>35.08%</b>

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	<b>As of December 31, 2010</b>	<b>As of December 31, 2009</b>
<b>Current</b>		
Allowances for receivables	\$ 3,956,251	\$ 3,626,853
Inventory capitalization	258,605	172,777
Accrued expenses and deferred compensation	4,248,393	3,586,472
Inventory obsolescence reserve	2,173,056	3,448,781
	<b>10,636,305</b>	<b>10,834,883</b>
<b>Long-term</b>		
Basis of goodwill	192,554	(229,120)
Deferred revenue and miscellaneous	1,242,543	291,923
Basis of fixed assets	(6,262,997)	(4,507,434)
Contributions	425,933	1,568,288
Net operating loss carry forward	(75,502)	368,788
	<b>(4,477,469)</b>	<b>(2,507,555)</b>
	<b>6,158,836</b>	<b>\$ 8,327,328</b>
	<b>IN INR</b>	<b>IN INR</b>
	<b>As of December 31, 2010</b>	<b>As of December 31, 2009</b>
<b>Current</b>		
	<b>IN INR</b>	<b>IN INR</b>
Allowances for receivables	176,883,982	162,156,598
Inventory capitalization	11,562,230	7,724,860
Accrued expenses and deferred compensation	189,945,651	160,351,163
Inventory obsolescence reserve	97,157,334	154,194,999
	<b>475,549,197</b>	<b>484,427,619</b>
<b>Long-term</b>		
Basis of goodwill	8,609,089	(10,243,955)
Deferred revenue and miscellaneous	55,554,098	13,051,877
Basis of fixed assets	(280,018,596)	(201,527,374)
Contributions	19,043,464	70,118,156
Net operating loss carry forward	(3,375,694)	16,488,511
	<b>(200,187,639)</b>	<b>(112,112,784)</b>
	<b>275,361,558</b>	<b>372,314,835</b>

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A subsidiary of the Company has New Jersey NOL (net operating loss) carry forwards of approximately \$31.2 million [INR 1394.95 Mn] that will expire during 2013 to 2017 tax years. A valuation allowance reserve was established during the year against these NOL's and other state deferred tax assets associated with this Subsidiary to capture the cumulative losses in recent and preceding years. Shall the Company determine it is more likely than not that its deferred tax assets would be realized in the future, this valuation allowance would be reversed accordingly. Included in the Company's long-term liabilities as of December 31, 2010 were unrecognized income tax benefit obligations of \$1,374,314 [INR 61,445,579]. Included in this balance, \$1,141,645 [INR 51,042,948] relates to net unrecognized tax positions that, if recognized, would affect the annual effective tax rate, none of which is expected to change during the twelve months following December 31, 2010. In addition, the Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. Included in this recorded liability were accrued interest related to the unrecognized income tax benefits totaling 99,452 [INR 4,446,499]. The following is a summary of the changes in unrecognized income tax benefits for the year ended December 31, 2010, excluding accrued interest and penalties:

Unrecognized income tax benefits, January 1, 2010	\$93,871 [INR 4,196,972]
Gross increase resulting from tax positions taken in the current year	-
Gross increase resulting from tax positions taken in a prior year	-
Reductions resulting from settlements with taxing authorities	1,180,945 [INR 52,800,051]
Reductions resulting from lapses of statute of limitations	-
Balance at December 31, 2010	<b>1,274,816</b> <b>[INR 56,997,023]</b>

The Company, including its domestic subsidiaries, is subject to U.S. Federal income as well as income tax in multiple state jurisdictions.

During 2008, the Internal Revenue Service ("IRS") completed an examination of the Company's tax returns for the 2005 and 2006 tax years. As a result of the examinations, the IRS proposed no changes to both tax years.

The Company is currently under examination by the IRS for the 2007 and 2008 tax years. This examination is at the late stage and is expected to be completed within the next 12 months.

On the state side, the Company is currently under examination by the New York State Department of Finance for the year 2006 to 2008. This examination is at the initial stage and is expected to be completed in the near future.

Also, the Company's subsidiaries, OHM Laboratories and Ranbaxy Inc. are currently under examination by the New Jersey Department of Finance for the year 2005 to 2008. These examinations are at the initial stage and are expected to be completed within the next 12 months.

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**16. RELATED PARTY TRANSACTIONS**

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

- a) Ranbaxy Laboratories Limited (RLL) ('Intermediate holding company')
- b) Ranbaxy Netherlands BV (RNBV) ('Intermediate holding company')
- c) Ranbaxy Pharmaceuticals Canada Inc. (RPCI) ('affiliate')
- d) Ranbaxy Europe Limited (REL) ('affiliate')

The related party transactions are categorized as follows:

	<u>As of December 31, 2010</u>	<u>As of December 31, 2009</u>
Trade purchases from RLL	\$279,243,622	\$181,318,276
Other income from RLL	761,893	586,593
Expenses incurred on behalf of RLL	\$3,801,760	\$8,243,025
Expenses incurred by RLL	-	208,494
Other income from RPCI	\$823,760	\$621,408
Royalty expense to RLL	\$1,772,879	\$1,371,401
Interest expense (net) to RNBV	-	304,539
Trade sales to RPCI	3,494,521	2,972,666
Trade sales to RLL	253,378	8,704,170

The balances receivable from and payable to related parties are summarized as follows:

	<u>As of December 31, 2010</u>	<u>As of December 31, 2009</u>
Trade payable to RLL	\$103,618,218	\$184,474,576
Royalty payable to RLL	1,268,243	944,590
Non trade payable to RLL	236,880	208,494
Non trade payable to REL	-	14,221
Interest payable (net) to RNBV	-	543,750
<b>Due to related parties</b>	<b>\$105,123,341</b>	<b>\$186,185,631</b>
Trade receivable from RLL	2,488,966	32,933,957
Non trade receivable from RLL*	23,961,718	-
Trade receivable from RPCI	211,595	1,468,435
Non trade receivable from RPCI#	228,430	622,557
Interest receivable from RNBV	-	39,090
Non trade receivable from REL	-	20,373
<b>Due from related parties</b>	<b>26,890,709</b>	<b>35,084,412</b>

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	IN INR	
	As of December 31, 2010	As of December 31, 2009
	IN INR	IN INR
Trade purchases from RLL	12,779,891,529	8,298,230,351
Other income from RLL	34,868,871	26,846,074
Expenses incurred on behalf of RLL	173,991,728	377,251,106
Expenses incurred by RLL	-	9,541,957
Other income from RPCI	37,700,283	28,439,421
Royalty expense to RLL	81,137,758	62,763,675
Interest expense (net) to RNBV	-	13,937,562
Trade sales to RPCI	159,930,598	136,047,329
Trade sales to RLL	11,596,123	398,355,915

The balances receivable from and payable to related parties are summarized as follows:

	IN INR	
	As of December 31, 2010	As of December 31, 2009
Trade payable to RLL	4,632,770,527	8,247,858,293
Royalty payable to RLL	56,703,145	42,232,619
Non trade payable to RLL	10,590,905	9,321,767
Non trade payable to REL	-	635,821
Interest payable (net) to RNBV	-	24,311,063
<b>Due to related parties</b>	<b>4,700,064,576</b>	<b>8,324,359,562</b>
Trade receivable from RLL	111,281,670	1,472,477,217
Non trade receivable from RLL*	1,071,328,412	-
Trade receivable from RPCI	9,460,412	65,653,729
Non trade receivable from RPCI#	10,213,105	27,834,523
Interest receivable from RNBV	-	1,747,714
Non trade receivable from REL	-	910,877
<b>Due from related parties</b>	<b>1,202,283,599</b>	<b>1,568,624,061</b>

\*Includes receivable on account of sales return and inventory obsolescence due to FDA investigation amounting \$18,421,241 [INR 823,613,685] and \$ 19,104,898 [INR 854,179,990] for the year ended December 31, 2010 and 2009, respectively.

#Related to management fee charged by the Company equivalent to 2% of its applicable selling, general and administration expenses.

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**17. SELLING, GENERAL AND ADMINISTRATION EXPENSES**

Selling, general and administration expenses includes following:-

	<b>For the year ended December 31, 2010</b>	<b>For the year ended December 31, 2009</b>
Advertising	877,900 [INR 40,178,059]	693,700 [INR 31,747,944]
Shipping and handling	4,419,400 [INR 202,258,702]	3,486,500 [INR 159,563,508]

**18. ROYALTY / PRORIT SHARE AGREEMENTS**

During 2003, the Company entered into a royalty agreement with a third party for the payment of royalties relating to the sale of certain products in the United States of America. The third party supplies the active pharmaceutical ingredient ("API") to RLL. RLL, in turn, supplies the finished product to the Company. As a result of the US FDA's import alert on products manufactured at the Paonta Sahib and Dewas facilities in September 2008, the Company could no longer import these products. The total royalty expense incurred during 2010 and 2009 under this royalty agreement is \$Nil and \$162,517 [INR 7,437,769], respectively, and is included in royalty expense.

The Company has also entered into royalty agreements for other products, none of which is considered individually significant.

During 2008, the Company entered into a Distribution and Bailment Agreement with a Third Party for distribution of two products. Under the terms of the agreement, the Company has rights to sell the products as an authorized generic and distribute a major portion of the profits back to the third party. The profit share expense recognized in 2010 and 2009 amounting to approximately \$9,038,000 [INR 413,634,012] and \$10,087,900 [INR 461,683,840], respectively, was classified as part of cost of revenues in the consolidated statements of earnings and accumulated earnings.

During 2009, the Company entered into a distribution agreement for a product as an authorized generic. The Company has to pay 90% of the profit as a profit share per the terms of the agreement. The total profit share expense incurred under this agreement during 2010 and 2009 is approximately \$3,029,800 [INR 138,662,130] and \$1,126,900 [INR 51,573,818], respectively and is included in the cost of revenues.

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**19. SUBSEQUENT EVENTS**

The Company evaluated all events and transactions that occurred after December 31, 2010 up through 21 April, 2011, the date financial statements were issued. Based on this evaluation, the Company is not aware of any events or transactions that would require recognition on disclosure in the consolidated financial statements.

**20. SHARE BASED COMPENSATION**

RLL's Employee Stock Option Schemes ("ESOSs" or "Schemes") provide for the grant of stock options to eligible management employees and Directors of RLL and eligible management employees and Directors of the subsidiaries. The ESOSs are administered by the Board's Compensation Committee. Options are granted on the basis of performance and the grade of the employee. Presently, there are three ESOSs ("ESOS I", "ESOS II" and "ESOS 2005"). Options can be distributed at the discretion of the committee to select employees depending upon (i) criticality of the position held, (ii) potential of the Manager and (iii) significant contribution made during the year.

The ESOSs limit grants to an employee to 25,000 options for ESOS I and 40,000 options for ESOS II and ESOS 2005 in any given year. ESOS I and II provide that the exercise price of options is to be determined at the average of the daily closing price of RLL's equity shares on the National Stock Exchange ("NSE") during a period of 26 weeks preceding the date of the grant. ESOS 2005 provides that the exercise price of options will be the latest available closing price on the stock exchange on which the shares of RLL are listed, prior to the date of the meeting of the Committee of Directors in which the options are granted. If the shares are listed on more than one stock exchange, then the stock exchange where there is highest trading volume on the said date shall be considered. The options vest over a period of five years from the date of grant, with 20 percent of the options vesting at the end of each year. Options lapse if they are not exercised prior to the expiry date, which is ten years from the date of the grant.

As the number of shares that an individual employee is entitled to receive and the prices of the options are known on the grant date, the grants made pursuant to the ESOSs are considered fixed grants.

Stock option activity for option granted to the employees of the Company under the aforesaid Schemes collectively is as follows:

Particulars	For the year ended December 31, 2010			
	Stock options (Numbers)	Range of exercise price	Weighted average exercise price	Weighted average remaining contractual life (Years)
Outstanding at the beginning of year	1,016,279	\$4.83-\$12.04	\$9.06	4.52
Granted during year	220,120	\$10.06	\$10.06	9.16

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**For the year ended December 31, 2010**

<b>Particulars</b>	<b>Stock options (Numbers)</b>	<b>Range of exercise price [IN INR]</b>	<b>Weighted average exercise price [ IN INR</b>	<b>Weighted average remaining contractual life (Years)</b>
Outstanding at the beginning of year	1,016,279	216-538	405	4.52
Granted during year	220,120	450	450	9.16
Forfeited and lapsed during year	(69,062)	216-538	446	-
Exercised during year	(10,729)	216-538	344	-
Outstanding, end of year	1,156,608	216-538	412	3.76
Forfeited and lapsed during year	(69,062)	\$4.83-\$12.04	\$9.97	-
Exercised during year	(10,729)	\$4.83-\$12.04	\$7.69	-
Outstanding, end of year	1,156,608	\$4.83-\$12.04	\$9.21	3.76
Exercisable at the end of the year	714,420	\$4.83-\$12.04	\$9.79	7.68

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

Exercisable at the end of the year	714,420	216-538	438	7.68
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**For the year ended December 31, 2009**

<b>Particulars</b>	<b>Stock options (Numbers)</b>	<b>Range of exercise price</b>	<b>Weighted average exercise price</b>	<b>Weighted average remaining contractual life (Years)</b>
Outstanding at the beginning of year	982,865	\$6.12-\$11.08	\$9.20	6.48
Granted during year	190,000	\$8.40	\$4.64	9.10
Forfeited and lapsed during year	(156,586)	\$6.12-\$11.08	\$9.32	-
Exercised during year	-	-	-	-
Outstanding at the end of the year	1,016,279	\$6.12-\$11.08	\$7.86	4.52
Exercisable at the end of the year	564,809	\$6.12-\$11.08	\$9.85	4.78

**For the year ended December 31, 2009**

<b>Particulars</b>	<b>Stock options (Numbers)</b>	<b>Range of exercise price [ IN INR]</b>	<b>Weighted average exercise price [IN INR]</b>	<b>Weighted average remaining contractual life (Years)</b>
Outstanding at the beginning of year	982,865	274-495	411	6.48
Granted during year	190,000	376	207	9.10
Forfeited and lapsed during year	(156,586)	274-495	417	-
Exercised during year	-	-	-	-
Outstanding at the end of the year	1,016,279	274-495	351	4.52
Exercisable at the end of the year	564,809	274-495	440	4.78

**RANBAXY INC. AND SUBSIDIARIES**  
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The following table summarizes information about stock options outstanding:

**As of December 31, 2010**

Range of exercise prices	Options outstanding			Options exercisable	
	Number of outstanding options	Weighted average remaining contractual life	Weighted average exercise price	Number of outstanding options	Weighted average exercise price
	(Numbers)	(Years)		(Numbers)	
Up to \$4.83	176,880	8.06	\$4.83	50,940	\$4.83
\$4.84 - \$7.53	68,590	1.02	\$6.44	68,590	\$6.44
\$7.54 - \$12.04	911,158	5.10	\$10.27	594,890	\$10.60
	<b>1,156,608</b>			<b>714,420</b>	

Range of exercise prices	Options outstanding			Options exercisable	
	Number of outstanding options	Weighted average remaining contractual life	Weighted average exercise price	Number of outstanding options	Weighted average exercise price
	(Numbers)	(Years)	[ IN INR]	(Numbers)	
Up to 221	176,880	8.06	216	50,940	221
222-345	68,590	1.02	288	68,590	295
346-551	911,158	5.10	459	594,890	485
	<b>1,156,608</b>			<b>714,420</b>	

**As of December 31, 2009**

Range of exercise prices	Options outstanding			Options exercisable	
	Number of outstanding options	Weighted average remaining contractual life	Weighted average exercise price	Number of outstanding options	Weighted average exercise price
	(Numbers)	(Years)		(Numbers)	
Up to \$6.09	241,135	3.10	\$4.98	55,860	\$6.09
\$6.10 - \$8.00	35,644	2.06	\$7.40	35,644	\$7.40
\$8.10 - \$14.80	739,500	5.88	\$9.98	473,305	\$10.47
	<b>1,016,276</b>	<b>4.52</b>	<b>\$8.70</b>	<b>564,809</b>	<b>\$9.85</b>

**RANBAXY INC. AND SUBSIDIARIES**  
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**(All amount in United States dollars, unless otherwise stated)**

The weighted average fair grant dated value of the options granted during 2010 and 2009 were \$10.06 [ IN INR 449.78] and \$6.18 [ IN INR 276] , respectively.

Range of exercise prices	Options outstanding			Options exercisable	
	Number of outstanding options (Numbers)	Weighted average remaining contractual life (Years)	Weighted average exercise price [ IN INR}	Number of outstanding options (Numbers)	Weighted average exercise price
Up to 279	241,135	3.10	223	55,860	279
280-366	35,644	2.06	331	35,644	339
367-677	739,500	5.88	446	473,305	479
	<b>1,016,276</b>	<b>4.52</b>	<b>389</b>	<b>564,809</b>	<b>451</b>

The following is a summary of the changes in non-vested shares:

**For the year ended December 31, 2010**

Particulars	Shares (Numbers)	Weighted-average exercise price	Weighted-average fair value
Non-vested shares at January 1, 2010	451,470	\$7.57	\$10.62
Granted during the year	220,120	\$10.06	\$14.96
Vested during the year	(207,640)	\$8.67	\$11.32
Forfeited during the year	(21,762)	\$8.00	\$12.31
Non-vested shares at December 31, 2010	442,188	\$8.27	\$11.95

Particulars	Shares (Numbers)	Weighted-average exercise price [ IN INR]	Weighted-average fair value [ IN INR]
Non-vested shares at January 1, 2010	451,470	338	474
Granted during the year	220,120	450	669
Vested during the year	(207,640)	388	506
Forfeited during the year	(21,762)	358	550
Non-vested shares at December 31, 2010	442,188	370	534

**For the year ended December 31, 2009**

**RANBAXY INC. AND SUBSIDIARIES**  
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<b>Particulars</b>	<b>Shares (Numbers)</b>	<b>Weighted-average exercise price</b>	<b>Weighted-average fair value</b>
Non-vested shares at January 1, 2009	482,880	\$9.04	\$8.93
Granted during the year	190,000	\$9.24	\$14.24
Vested during the year	(176,465)	\$10.00	\$10.45
Forfeited during the year	(44,945)	\$9.75	\$12.20
Non-vested shares at December 31, 2009	451,470	\$7.27	\$10.20

<b>Particulars</b>	<b>Shares (Numbers)</b>	<b>Weighted-average exercise price [ IN INR]</b>	<b>Weighted-average fair value [ININR]</b>
Non-vested shares at January 1, 2009	482,880	404	399
Granted during the year	190,000	413	637
Vested during the year	(176,465)	447	467
Forfeited during the year	(44,945)	436	545
Non-vested shares at December 31, 2009	451,470	325	456

Pursuant to the issue of bonus shares on October 11, 2002, the employees to whom options were granted until October 4, 2002 are entitled to additional shares on exercise of options in the ratio of "three for five."

The fair value of instruments issued under the share-based compensation plans is calculated using a Black-Scholes model. The following table summarizes the assumptions used in calculating the grant date fair value for instruments granted in the year ended December 31, 2009 and 2008:

	<b>Grant Dates</b>			
	<b>January 16, 2009</b>	<b>January 16, 2008</b>	<b>June 11, 2008</b>	<b>December 16, 2008</b>
Dividend yield	1.49%	2.17%	1.52%	1.96%
Expected life of options from the date(s) of grant	6.5 years	6.5 years	6.5 years	6.5 years
Risk free interest rate	6.22%	7.53%	8.22%	6.05%
Volatility	38.60%	31.99%	32.43%	38.15%

The expected forfeiture rate, computed by the external valuation specialist, is taken as 10.26% and 10.86% in 2009 and 2008, respectively.

**RANBAXY INC. AND SUBSIDIARIES**  
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The Black-Scholes option-pricing model was developed for estimating fair value of traded options that have no vesting restrictions and are fully transferable. Since options pricing models require use of subjective assumptions, changes therein can materially affect fair value of the options. The options pricing models do not necessarily provide a reliable measure of fair value of the options.

The total compensation expense in 2010 and 2009 related to the options granted to the Company's employees amounting to \$442,745 [INR 20,262,712] and \$518,401 [INR 23,725,192] was recorded at RLL level. The future charge amounting to \$1,330,787 [INR 60,904,931] shall be recorded over the remaining weighted average period of 7.68 years at RLL's level, assuming no changes to the underlying assumptions.

**21. EMPLOYEE BENEFIT PLAN**

The Company participates in a retirement plan under Section 401(k) of the Internal Revenue Code ("Code") covering substantially all eligible employees. The plan allows for employees to defer up to 15% of their annual earnings (within limitations prescribed in the code) on a pretax basis through voluntary contributions to the plan.

The plan provides that the Company can make optional contributions in an amount up to the maximum allowable by Section 404 of the Code. Employees are 25% vested with regard to the Company's contribution following one year of service, and the employee is fully vested after three years of service.

For the years ended December 31, 2010 and 2009, the Company's contributions to the plan were \$1,274,063 [INR 58,308,895] and \$973,703 [INR 44,562,589], respectively.

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

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