

Ranbaxy Mexico S.A. DE C.V.

DIRECTORS REPORT

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

Balance Sheet as at December 31, 2010		
	Mexican Pesos	INR
Assets		
Current		
Cash & Bank	1,464,410	5,298,155
Commercial Accounts receivable	15,966,989	57,767,688
Daiichi Sankyo Ltd. , related party	4,812,834	17,412,569
Other Accounts receivable	3,443,512	12,458,437
Inventory	2,247,479	8,131,255
Advances/Expenses paid	263,372	952,865
Total Current Assets	28,198,596	102,020,970
Machinery, furniture and equipment, net Fixed assets	2,785,156	10,076,541
Deferred taxes	6,423,143	23,238,578
Non Current Assets	591,385	2,139,598
Total Assets	37,998,280	137,475,687
Liabilities		
Current		
Commercial Accounts payable – Zerboni S.A. de C.V.	17,995,165	65,105,517
Other accounts payable	6,324,728	22,882,518
Other accounts payable – related parties	26,523,200	95,959,479
Accruals	6,151,520	22,255,861
Total Current Liabilities	56,994,613	206,203,376
Deficit in Investment in Subsidiary –Ranbaxy Mexico Servicios S.A. de C.V.	4,722,804	17,086,845
Total Liabilities	61,717,417	223,290,221
Shareholders funds		
Social Capital	67,144,000	242,923,300
Accumulated loss	(90,863,137)	(328,737,833)
Net Shareholders funds (deficit)	(23,719,137)	(85,814,533)
Total Liabilities plus Shareholders funds	37,988,280	137,439,508

Ranbaxy Mexico S.A. DE C.V.

Profit and Loss Statement for the year ended December 31, 2010	Mexican Pesos	INR
Net sales	86,437,045	313,746,080
Cost of Sales	55,372,983	200,990,864
Gross Margin	31,064,062	112,755,216
Operative Expenses:		
Administrative expenses	54,160,383	196,589,412
Selling expenses		
Operating (Loss) / Gain	(23,096,321)	(83,834,196)
Other revenues (expenses):		
Financial expenses, net	(663,607)	(2,408,737)
Ex-change rate difference, net - gain	2,410,175	8,748,367
Other revenues (expenses), net	2,315,662	8,405,307
Financial results	1,746,568	6,339,630
Equity in Subsidiary - Ranbaxy Mexico Servicios S.A. de C.V.	(4,722,804)	(17,142,664)
Loss before Income taxes	(23,806,795)	(86,413,049)
Deferred Income tax	3,890,377	14,121,151
(Loss)/Gain net	(19,916,418)	(72,291,898)

Dividend

No Dividend have been declared for the year.

Changes in Capital Structure

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

Directors

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

Acknowledgement

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

Sd/-
Alok Kapoor
Director

Sd/-
Giridhar Venugopal
Director

Dated : February 8th, 2011



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Independent Auditors' Report

(Translation from Spanish Language Original)

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

(Mexican pesos)

We have examined the accompanying balance sheets of Ranbaxy México, S. A. de C. V. (the Company) as of December 31, 2010 and 2009, and the related statements of operations, stockholders' equity (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As indicated in notes 13 and 16(b) to the financial statements, a former employee holds a suit against the Company regarding labor obligations payments. Up to the date of our report, the final result of the trial is uncertain, in accordance with the Company's legal advisor.

According to this, the Company recognized an accrual amounting to \$1,600,000 (In Rs. 5,788,712) (\$911,954 (In Rs. 3,299,399)

in 2009). The amount of the accrual was determined by Company's legal advisors, however, that determination lacks sufficient audit evidence to enable us to conclude on the correct determination, also could not satisfy its reasonableness by applying other audit procedures.

(Continued)

As mentioned in note 3(j), until December 31, 2009, the Company recognized the labor obligations liability determined through different bases than the FRS D-3 "Employee benefits". The effects of recognition of labor obligations were a debit for \$623,105 to administrative expenses and a credit to labor obligations liability for the same amount. As of December 31, 2009, it was not possible to determine the effects of the deviation reasonably.

As described in note 3(a), the accompanying financial statements have been prepared in accordance with FRS, except that they do not recognize the accumulated inflation effects until December 31, 2007, in the financial information as required by the FRS B-10 "Effects of inflation". The inflation effects on the Company's financial information were not determined.

As indicated in note 3(m), the main supplier of the Company is Laboratorios Zerboni, S. A. de C. V., (unrelated party) with which the Company carried out the entire inventory purchases in 2010 and 2009. Such products are obtained by the supplier from Ranbaxy Laboratories Limited, related party.

As mentioned in note 2, on January 1, 2010, the Company transferred its personnel to México Servicios, S. A. de C. V., (subsidiary company) through employer substitution with which, from that date, all labor rights and obligations will be on such entity.

The accompanying financial statements were prepared considering the FRS applicable to a going concern. In the years ended December 31, 2010 and 2009, the Company suffered a loss of \$19,916,418 (In Rs. 72,291,898) and \$14,340,448 (In Rs. 52,052,443), respectively; and at such dates, it has a deficit of \$90,863,137 (In Rs. 329,811,750) and \$70,946,719 (In Rs. 257,519,851), respectively, and the balance sheets shows an excess of short term liabilities over current assets of \$28,796,017 (In Rs. 104,182,406) and \$9,423,179 (In Rs. 34,092,543), respectively. Furthermore, as described in note 15(c), the Company has lost all of its capital stock and, in accordance with Mexican law this may be cause for its dissolution, at the legal request of any interested party with outstanding credits. The financial statements neither include adjustments relating to the valuation and classification of assets nor with the classification and amount of liabilities that might be necessary should the Company not be able to continue as a going concern. The holding company has confirmed the financial support to Ranbaxy Mexico, S. A. de C. V. to continue as a going concern.

As mentioned in note 1, the accompanying non-consolidated financial statements have been prepared to be used by the Company's management, as well as to comply with certain legal and tax requirements. The financial information therein does not include the consolidation of the financial statements of its subsidiary, which has been accounted for under the equity method. The Company has exercised the option contained in FRS B-8 "Consolidated or combined financial statements" for not presenting consolidated financial statements, as it is in turn a subsidiary of Ranbaxy Netherlands, B. V., and is not required to issue consolidated financial statements for decision-making, and its (controlling and non-controlling) stockholders have expressed their consent to do so.

In our opinion, except for such adjustments, if any, as might have been determined to be necessary had we been able to obtain the evidence on the issue mentioned in the third paragraph of this report, and the lack of recognition of the accumulated inflation effects in financial information, mentioned in the fifth paragraph of this report, and as well as for the labor obligations liability recognized through different bases than FRS as of December 31, 2009, the financial statements referred to above present fairly, in all material respects, the financial position of Ranbaxy México, S. A. de C. V. as of December 31, 2010 and 2009, and the results of its operations and the changes in its stockholders' equity (deficit) and cash flows for the years then ended, in conformity with Mexican Financial Reporting Standards. 10

KPMG CARDENAS DOSAL, S. C.



Edgar de la Rosa

February 8, 2011.



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

Balance Sheets
December 31, 2010 and 2009

Assets	2010		2009		Liabilities and Stockholders' Equity (Deficit)	2010		2009	
	Mexican Pesos	In Rs.	Mexican Pesos	In Rs.		Mexican Pesos	In Rs.	Mexican Pesos	In Rs.
Current assets:					Current liabilities:				
Cash and cash equivalents	1,464,410	5,298,155	555,367	2,009,287	Laboratorios Zerboni, S. A. de C. V.	17,995,165	65,105,517	8,257,597	29,875,532
Accounts receivable, net (note 6)	15,966,989	57,767,688	18,533,036	67,051,505	Other liabilities	6,324,728	22,882,518	5,422,111	19,616,899
Daiichi Sankyo, Ltd., related party (note 7)	4,812,834	17,412,569	4,573,715	16,547,449	Accrued liabilities	77,123	279,027	848,161	3,068,600
Other accounts receivable (note 8)	3,443,512	12,458,437	2,369,157	8,571,480	Accruals (note 13)	6,074,397	21,976,834	3,758,204	13,596,975
Inventories, net (note 9)	2,247,479	8,131,255	8,431,860	30,506,006	Employee statutory profit sharing	-	-	237,394	858,878
Prepaid expenses	263,372	952,865	825,023	2,984,888	Related parties (note 7)	26,523,200	95,959,479	26,187,870	94,746,274
Total current assets	28,198,596	102,020,970	35,288,158	127,670,615	Total current liabilities	56,994,613	206,203,376	44,711,337	161,763,158
Permanent investment (note 10)	-	-	49,900	180,535	Deficit in permanent investment (note 10)	4,722,804	17,086,845	-	-
Machinery, furniture and equipment, net (note 11)	2,785,156	10,076,541	3,148,179	11,389,938	Employee benefits	-	-	623,105	2,254,360
Deferred income taxes (note 14)	6,423,143	23,238,578	2,532,766	9,163,408	Total liabilities	61,717,417	223,290,221	45,334,442	164,017,518
Other non-current assets (note 12)	591,385	2,139,598	512,720	1,854,993	Stockholders' equity (deficit) (note 15):				
					Capital stock	67,144,000	242,923,300	67,144,000	242,923,300
					Deficit	(90,863,137)	(328,737,833)	(70,946,719)	(256,681,328)
					Total stockholders' equity (deficit)	(23,719,137)	(85,814,533)	(3,802,719)	(13,758,028)
					Commitment and contingent liabilities (note 16)				
TOTAL	37,998,280		41,531,723		TOTAL	37,998,280	137,475,687	41,531,723	150,259,490

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

0.2764

0.2764

See accompanying notes to financial statements.

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

Statements of Operations
Years ended December 31, 2010 and 2009

Particulars	2010		2009	
	Mexican Pesos	In Rs.	Mexican Pesos	In Rs.
Net sales (note 7)	86,437,045	313,746,080	79,997,379	290,371,612
Cost of goods sold (note 7)	55,372,983	200,990,864	62,511,663	226,902,588
Gross profit	31,064,062	112,755,216	17,485,716	63,469,024
Expenses (note 7):				
Administrative	54,160,383	196,589,412	37,491,302	136,084,581
Selling	-		175,347	636,468
Total expenses	54,160,383	196,589,412	37,666,649	136,721,049
Operating loss	(23,096,321)	(83,834,196)	(20,180,933)	(73,252,025)
Other income, net:				
Current employee statutory profit sharing (note 14)	-		(237,394)	(861,684)
Profit on sale of furniture and equipment	226,720	822,940	5,197,365	18,865,209
Other income (expenses) (mainly reimbursements from Daiichi Sankyo, Ltd in 2010) (note 7)	2,088,942	7,582,367	(301,173)	(1,093,187)
Other income, net	2,315,662	8,405,307	4,658,798	16,910,338
Financial results:				
Interest expense (note 7)	(663,607)	(2,408,737)	(1,444,301)	(5,242,472)
Foreign exchange gain, net (note 5)	2,410,175	8,748,367	2,307,790	8,376,733
Financial results, net	1,746,568	6,339,630	863,489	3,134,261
Equity in subsidiary (note 10)	(4,772,704)	(17,323,789)	-	
Loss before income taxes	(23,806,795)	(86,413,049)	(14,658,646)	(53,207,426)
Deferred income taxes (note 14)	(3,890,377)	(14,121,151)	(318,198)	(1,154,984)
Net loss	(19,916,418)	(72,291,898)	(14,340,448)	(52,052,443)

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

0.2755

0.2755

See accompanying notes to financial statements.

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

Statements of Stockholders' Equity (Deficit) Years ended December 31, 2010 and 2009

			Mexican pesos
Particulars	Capital stock	Deficit	Total stockholders' equity (deficit)
Balances as of December 31, 2008	21,670,500	(56,606,271)	(34,935,771)
Increase in capital stock (note 15(a))	45,473,500	-	45,473,500
Comprehensive loss (note 15(b))	-	(14,340,448)	(14,340,448)
Balances as of December 31, 2009	67,144,000	(70,946,719)	(3,802,719)
Comprehensive loss (note 15(b))	-	(19,916,418)	(19,916,418)
Balances as of December 31, 2010	67,144,000	(90,863,137)	(23,719,137)

			In Rs.
Particulars	Capital stock	Deficit	Total stockholders' equity (deficit)
Balances as of December 31, 2008	78,402,677	(204,798,376)	(126,395,698)
Increase in capital stock (note 15(a))	164,520,622	-	164,520,622
Comprehensive loss (note 15(b))	-	(51,882,952)	(51,882,952)
Balances as of December 31, 2009	242,923,300	(256,681,328)	(13,758,028)
Comprehensive loss (note 15(b))	-	(72,056,505)	(72,056,505)
Balances as of December 31, 2010	242,923,300	(328,737,833)	(85,814,533)

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

0.2764

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years ended December 31, 2010 and 2009

Particulars	2010		2009	
	Mexican Pesos	In Rs.	Mexican Pesos	In Rs.
Cash flows from operating activities:				
Loss before income taxes	(23,806,795)	(86,131,675)	(14,658,648)	(53,034,182)
Items relating to investing activities:				
Depreciation and amortization	876,151	3,169,866	497,660	1,800,507
Permanent investment	4,772,704	17,267,381	(49,900)	(180,535)
Profit on sale of land, furniture and equipment	(226,720)	(820,260)	(5,197,365)	(18,803,781)
Interest expense	663,607	2,400,894	1,444,301	5,225,402
Subtotal	(17,721,053)	(64,113,795)	(17,963,952)	(64,992,590)
Accounts receivable	2,566,047	9,283,817	(8,232,396)	(29,784,356)
Daiichi Sankyo, Ltd. (related party)	(239,119)	(865,119)	(4,573,715)	(16,547,449)
Other accounts receivable	(1,074,355)	(3,886,957)	(561,357)	(2,030,959)
Inventories	6,184,381	22,374,750	(2,314,143)	(8,372,442)
Prepaid expenses	561,651	2,032,022	(205,783)	(744,512)
Laboratorios Zerboni, S. A. de C. V.	9,737,568	35,229,986	(26,312,237)	(95,196,226)
Other accruals	902,617	3,265,619	4,020,152	14,544,689
Accrued liabilities	(435,708)	(1,576,368)	478,290	1,730,427
Accruals	2,316,193	8,379,859	2,829,505	10,236,993
Employee statutory profit sharing	(237,394)	(858,878)	237,394	858,878
Change in employees' benefits	(623,105)	(2,254,360)	438,936	1,588,046
Employees' benefits payments	-	-	(21,919)	(79,302)
Net cash provided by (used in) operating activities	1,937,723	7,010,575	(52,181,225)	(188,788,802)
Cash flows from investment activities:				
Capital expenditures	(566,435)	(2,049,331)	(2,866,744)	(10,371,722)
Proceeds from sale of land, furniture and equipment	280,028	1,013,126	10,336,977	37,398,614
Increase in other non-current assets	(78,665)	(284,606)	(172,249)	(623,187)
Net cash used in investment activities	(365,073)	(1,320,814)	7,297,984	26,403,705
Cash surplus to be applied in (cash to be obtained fr	1,572,650	5,689,761	(44,883,241)	(162,385,098)
Cash flows from financing activities:				
Cash in flow from increase in capital stock	-	-	45,473,500	164,520,622
Interest paid	(663,607)	(2,400,894)	(3,101,482)	(11,220,991)
Net cash provided by financing activities	(663,607)	(2,400,894)	42,372,018	153,299,631
Net increase (decrease) in cash and cash equivalent	909,043	3,288,868	(2,511,223)	(9,085,467)
Effects from cash value changes	-	-	(1,064,127)	(3,849,953)
Cash and cash equivalents:	909,043	3,288,868	(3,575,350)	(12,935,420)
At beginning of year	555,367	2,009,287	4,130,717	14,944,707
At the end of year	1,464,410	5,298,155	555,367	2,009,287

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

0.2764

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

Notes to Financial Statements

December 31, 2010 and 2009

(Mexican pesos)

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

(1) Financial statement authorization and presentation-

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

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

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

The accompanying non-consolidated financial statements have been prepared to be used by the Ranbaxy México, S. A. de C. V.'s management, as well as to comply with certain legal and tax requirements. The financial information therein does not include the consolidation of the financial statements of its subsidiary, which has been accounted for as of December 31, 2010 under the equity method. Ranbaxy México, S. A. de C. V. has exercised the option contained in FRS B-8 "Consolidated or combined financial statements" for not presenting consolidated financial statements, as it is in turn a subsidiary of Ranbaxy Netherlands, B. V., and is not required to issue consolidated financial statements for decision-making, and its (controlling and non-controlling) stockholders have expressed their consent to do so.

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

Given that the Company is an commercial entity, ordinary costs and expenses are presented based on their function, to arrive at the gross profit margin.

(Continued)

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

Notes to Financial Statements

(Mexican pesos)

(2) Description of business and significant transaction-***Description of business-***

The principal activity of Ranbaxy Mexico, S. A. C. V. (the Company) is the marketing of generic prescribed drugs for respiratory, antiviral, urologic and metabolic treatments. The Company is a subsidiary of Ranbaxy Netherlands, B. V., with whom it performs the operations described in note 7.

From January 1, 2010, the Company has no employees and, therefore, is not subject to labor obligations. Administrative services are provided by a subsidiary Company, for a fee (note 7).

Significant transaction-***Investment in subsidiaries and transfer of employees-***

On December 31, 2009, Ranbaxy Mexico, S. A. de C. V. contributed \$49,900 [IN INR 180,535] to constitute Ranbaxy México Servicios, S. A. de C. V. (Ranbaxy Services), entity whose main objective is to provide administrative services and staff to the Company since January 1, 2010. Additionally, on January 1, 2010, the Company transfers its personnel to Ranbaxy México Servicios, S. A. de C. V., through employer substitution with which, from that date all labor rights and obligations will be on such entity.

(3) Summary of significant accounting policies-

The preparation of financial statements requires management to make a number of estimates and assumptions that affect to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of machinery, furniture and equipment; and valuation allowances for receivables, inventories and deferred income tax assets. Actual results could differ from those estimates and assumptions.

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

(Continued)

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

Notes to Financial Statements

(Mexican pesos)

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

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

The accompanying financial statements have been prepared on the historical cost basis, therefore they do not recognize the effects of inflation on financial information that, until December 31, 2007 should have been recognized; from that date, the economic environment was no longer considered inflationary.

(b) *Cash and cash equivalents-*

Cash and cash equivalents consist of checking accounts, foreign currency and other highly liquid instruments. At the date of the financial statements, interest income and foreign exchange gains and losses are included in the income statement.

(c) *Accounts receivable-*

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

(d) *Inventories and cost of sales-*

Inventories are stated at the lower of historical cost determined by first in-first out, or market value, provided the latter is not less than net realizable value.

Cost of sales represents the cost of inventories at the time of sale, increased, as applicable, for reductions in the net realizable value of inventories during the year.

The Company records the necessary allowances for inventory impairment arising from damaged, obsolete or slow-moving inventories or any other reason indicating that the carrying amount will exceed the future revenues expected from use or realization of the inventory items.

(e) *Permanent investment-*

As of December 31, 2010, investment in its subsidiary in which the Company holds 99.99% of its capital stock, is accounted for by the equity method based on the audited financial statements of the investee as of December 31, 2010. As of December 31, 2009, was stated at cost, due to it had no operations.

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

Notes to Financial Statements

(Mexican pesos)

(f) Machinery, furniture and equipment-

Machinery, furniture and equipment are recorded at the acquisition cost. Depreciation on machinery, furniture and equipment is calculated on the straight-line method over the estimated useful lives of the assets as determined by the Company's management. The annual depreciation rates of the principal asset classes are as follows:

	<u>Rates</u>
Computer equipment	33.33%
Transportation equipment	25%
Machinery	10%
Office furniture and equipment	10%

Minor repairs and maintenance costs are expensed as incurred.

(g) Other assets-

Other assets include mainly security deposits.

(h) Impairment of machinery, furniture and equipment-

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

(i) Accruals-

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

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

Notes to Financial Statements

(Mexican pesos)

(j) Employee benefits-

Until December 31, 2009, the Company recognized liabilities for seniority premiums and termination benefits in accordance with generally accepted accounting principles in the United States of America, which differ from the FRS. On January 1, 2010, the Company transfers its personnel to Ranbaxy México Servicios, S. A. de C. V., (subsidiary company) through employer substitution with which, from that date, all labor rights and obligations will be on such entity.

(k) Income tax (IT) (flat rate business tax (IETU))-

IETU payable for the year are determined in conformity with the tax provisions in effect.

Deferred IETU is accounted for under the asset and liability method. Deferred taxes assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and in the case IETU, for operating loss carry forwards and other recoverable tax credits. Deferred tax 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 income statement in the period that includes the enactment date.

(l) Revenue recognition-

The Company recognizes revenue from sale of products when the products are shipped and the customer takes ownership and assumes risk of loss; based on management's analysis and estimates, the Company provides for doubtful receivables (reported under selling expenses), returns and discounts (deducted from sales) and sales commissions (reported under selling expenses).

(m) Business and credit concentration-

The Company's products are distributed among a large number of customers, without having an important concentration on a specific customer.

(Continued)

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

Notes to Financial Statements

(Mexican pesos)

The principal supplier is Laboratorios Zerboni, S. A. de C. V., with whom the Company made the total of purchases in 2010 and 2009. Such products are obtained by the supplier from Ranbaxy Laboratories Limited, related party.

(n) Financial results (FR)-

The FR includes interest and foreign exchange gains and losses. Transactions in foreign currency are recorded at the exchange rate prevailing on the date of execution or settlement. Foreign currency assets and liabilities are translated at the exchange rate in force at the balance sheet date. Exchange differences arising from assets and liabilities denominated in foreign currencies are reported in the income statement.

(o) Contingencies-

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

(4) Accounting changes-

The FRS and Revisions mentioned below, issued by the Mexican Board for Research and Development of Financial Reporting Standards (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera or CINIF) became effective for fiscal years beginning on or after January 1, 2010, with the respective prospective or retrospective application being specified in each case.

(a) FRS C-1 “Cash and cash equivalents” – FRS C-1 supersedes Bulletin C-1 “Cash” and is effective beginning January 1, 2010. The principal changes with respect to the superseded Bulletin include the following:

- FRS C-1 requires the presentation of restricted cash and cash equivalents in caption “Cash and cash equivalents” on the balance sheet.
- The term “demand temporary investment” is replaced by “available on-demand investments”.

(Continued)

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

Notes to Financial Statements

(Mexican pesos)

- To be identified as available on-demand investment, the investments should be highly liquid (original maturities of three months or less).
- FRS C-1 includes the definition of the terms: acquisition cost, cash equivalents, restricted cash and cash equivalents; available demand investments, net realizable value, nominal value and fair value.

The application of this standard did not generate accounting changes in the Company's financial statements.

(b) 2010 FRS Revisions-

In December 2009, the Mexican Board for Research and Development of Financial Reporting Standards (CINIF) issued the document referred to as "2010 FRS Revisions" setting forth the following accounting changes:

- FRS B-2 "Statement of Cash Flows"- Unrealized accrued foreign exchange fluctuations and the effects of fair value recognition are excluded from the cash balance on the statement of cash flows. Additionally, the concept "Adjustment to cash flow from foreign exchange fluctuations and inflation levels" is changed to "Effects from cash value changes" which includes effects from translation, inflation, foreign exchange fluctuations and fair value of cash balances. The changes in the presentation of the statement of cash flows were recognized retrospectively.
- FRS C-7 "Investments in associates and other permanent investments" – Capital contributions by the holding company to the associate that increase its equity percentage are to be recognized based on the net fair value of identifiable assets and liabilities. For that purpose, the valuation must be in proportion to the increase. The changes resulting from the application of this Revision are recognized prospectively beginning January 1, 2010.

The application of this revisions did not generate accounting changes in the Company's financial statements.

(5) Foreign currency exposure and translation-

Monetary assets and liabilities denominated in dollars translated into the reporting currency, as of December 31, 2010 and 2009, were as shown in the next page.

(Continued)

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

Notes to Financial Statements

(Mexican pesos)

		<u>Mexican pesos</u>	
		<u>2010</u>	<u>2009</u>
Current assets	\$	4,830,004	4,612,425
Current liabilities		<u>(33,390,202)</u>	<u>(34,445,467)</u>
Net liabilities	\$	(28,560,198) =====	(29,833,042) =====

		<u>IN INR</u>	
		<u>2010</u>	<u>2009</u>
Current assets	Rs.	17,474,689	16,687,500
Current liabilities		<u>(120,803,915)</u>	<u>(124,621,805)</u>
Net liabilities	Rs.	(103,329,226) =====	(107,934,305) =====

The exchange rates used in the translation processes to the reporting currency at December 31, 2010 and 2009 were \$12.3585 and \$13.0661, respectively.

At 31 December 2010, the Company had no hedging instruments against exchange risks.

As of December 31, 2010 and 2009, net foreign exchange gains amounting to \$2,410,175 [IN INR 8,748,367] and \$2,307,790 [IN INR 8,376,733] , respectively, were recorded.

(6) Accounts receivable-

Accounts receivable consist of the following:

		<u>2010</u>	<u>2009</u>
Clients	\$	19,808,901	21,330,585
Less:			
Allowance for doubtful accounts		2,740,038	1,877,685
Returns allowance		<u>1,101,874</u>	<u>919,864</u>
	\$	15,966,989 =====	18,533,036 =====

	IN INR 2010	2009
Clients	Rs. 71,667,514	77,172,884
Less:		
Allowance for doubtful accounts	9,913,307	6,793,361
Returns allowance	<u>3,986,520</u>	<u>3,328,017</u>
	Rs. <u>57,767,688</u>	<u>67,051,505</u>

(7) Related-party transactions and balances-

Transactions carried out with related parties during the years ended December 31, 2010 and 2009, were are as shown in the next page.

(Continued)

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

Notes to Financial Statements

(Mexican pesos)

	<u>2010</u>	<u>2009</u>
Revenue for reimbursement: Daiichi Sankyo, Ltd.	\$ 21,558,227 =====	10,959,814 =====
Interest expense:		
Ranbaxy Netherlands, B. V. (parent company)	\$ 663,607 =====	1,444,301 =====
Expenses from services received from:		
Ranbaxy México Servicios, S. A. de C. V. (subsidiary)	\$ 33,605,117 =====	- =====

IN INR

	<u>2010</u>	<u>2009</u>
Revenue for reimbursement: Daiichi Sankyo, Ltd.	Rs. 78,251,278 =====	39,781,539 =====
Interest expense:		
Ranbaxy Netherlands, B. V. (parent company)	Rs. 2,408,737 =====	5,242,472 =====
Expenses from services received from:		
Ranbaxy México Servicios, S. A. de C. V. (subsidiary)	RS. 121,978,646 =====	- =====

The Company has entered into a service agreement with a subsidiary, under which this company provides administrative services, human resources, financial, accounting, marketing, sales and product promotion, necessary for the Company's operations. This agreement has a duration of 36 months from January 1, 2010. The agreement requires the Company to cover a payment of the cost of services plus a monthly profit margin.

At December 31, 2010 and 2009, the account payable to related parties represents an account payable to Ranbaxy Netherlands, B. V. for 2,000,000 of dollars [IN INR 89,420,000] simple credit bearing interest at Libor plus 200 bps, renewable annually, maturing in July, 2011. At December 31, 2010 and 2009, the credit balance, translated into the reporting currency, represents \$24,717,000 [IN INR 89,424,747] and \$26,132,200 [IN INR 94,544,863] ,

respectively, and interest payable represents \$347,741 [IN INR 1,258,108] and \$55,670, [IN INR 201,411] respectively. Also, represents an account payable to Ranbaxy México Servicios, S. A. de C. V. for \$1,458,459 [In INR 5,276,624] as of December 31, 2010.

(8) Other accounts receivable-

Other accounts receivable are comprised as follows:

		<u>2010</u>	<u>2009</u>
Recoverable value-added tax	\$	2,502,962	2,102,457
Flat Rate Business Tax		773,796	-
Receivables from employees		87,153	266,700
Cash Deposits Tax		<u>79,601</u>	<u>-</u>
	\$	3,443,512	2,369,157
		=====	=====
		IN INR	
		<u>2010</u>	<u>2009</u>
Recoverable value-added tax	RS.	9,055,579	7,606,574
Flat Rate Business Tax		2,799,551	-
Receivables from employees		315,315	964,906
Cash Deposits Tax		<u>287,992</u>	<u>-</u>
	Rs.	12,458,437	8,571,480
		=====	=====

(Continued)

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

Notes to Financial Statements

(Mexican pesos)

(9) Inventories-

Inventories are comprised as follows:

		<u>2010</u>	<u>2009</u>
Finished goods	\$	8,642,229	15,546,031
Inventory in transit		<u>2,043,940</u>	<u>523,693</u>
		10,686,169	16,069,724
Less allowance for obsolete and slow-moving items (1)		<u>8,438,690</u>	<u>7,637,864</u>
	\$	<u>2,247,479</u>	8,431,860
		=====	=====

		IN INR <u>2010</u>	<u>2009</u>
Finished goods	Rs.	31,267,109	15,546,031
Inventory in transit		<u>7,394,863</u>	<u>1,894,692</u>
		38,661,972	58,139,378
Less allowance for obsolete and slow-moving items (1)		<u>0,530,716</u>	<u>2,763,337</u>
	Rs.	<u>8,131,255</u>	30,506,006
		=====	=====

- (1) Includes an accrual for \$5,386,535 [IN INR 19,488,187] at December 31, 2010, for products that the Federal Commission for Protection Against Health Risks control their sale by the requirement of medical prescription and which are close to expiration date and \$5,377,074 [IN Inr 19,453,958] at December 31, 2009 of an allowance for products that from February 25, 2010, could not be sold in México, according to the General Health Law.

(10) Investment in subsidiary-

At December 31, 2010, investment in the common stock of subsidiary company is accounted for by the equity method, which recognizes the Company's proportionate share in the income

and stockholder's equity of the investee. At December 31, 2009, the investment in its subsidiary is stated at cost, due to it had no operations.

At December 31, 2010, the investment in subsidiary company is represented by equity in the following Company:

<u>December 31, 2010</u>	<u>%</u>	<u>Equity in net assets</u>	<u>Equity in income for the year</u>
Ranbaxy México Servicios, S. A. de C. V.	99.99	\$ (4,722,804) =====	(4,772,704) =====
			IN INR
<u>December 31, 2010</u>	<u>%</u>	<u>Equity in net assets</u>	<u>Equity in income for the year</u>
Ranbaxy México Servicios, S. A. de C. V.	99.99	RS. (17,086,845) =====	(17,323,789) =====
			(Continued)

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

Notes to Financial Statements

(Mexican pesos)

At December 31, 2010, the independent auditors' report of the subsidiary, is a qualified opinion because the liability for labor obligations is recognized on a basis other than as provided by FRS D-3 "Employee benefits".

(11) Machinery, furniture and equipment-

Machinery, furniture and equipment comprise the following:

	<u>2010</u>	<u>2009</u>
Machinery	\$ 548,271	548,271
Office furniture and fixtures	1,067,083	1,068,683
Transportation equipment	1,143,129	1,091,997
Computer equipment	<u>1,466,901</u>	<u>1,221,859</u>
	4,225,384	3,930,810
Less accumulated depreciation	<u>1,570,228</u>	<u>912,631</u>
	2,655,156	3,018,179
Land	<u>130,000</u>	<u>130,000</u>
	\$ 2,785,156	3,148,179
	=====	=====

Machinery, furniture and equipment comprise the following:

	<u>2010</u>	IN INR <u>2009</u>
Machinery	Rs. 1,983,614	1,983,614
Office furniture and fixtures	3,860,648	3,866,436
Transportation equipment	4,135,778	3,950,785
Computer equipment	<u>5,307,167</u>	<u>4,420,619</u>
	15,287,207	14,221,454
Less accumulated depreciation	<u>5,680,999</u>	<u>3,301,849</u>

		9,606,208	10,919,606
Land		<u>470,333</u>	<u>470,333</u>
	Rs.	<u>10,076,541</u>	<u>11,389,938</u>
(12) Other non-current assets-			
Other non-current assets consist of:			
		<u>2010</u>	<u>2009</u>
Security deposits	\$	516,095	485,527
Other		<u>75,290</u>	<u>27,193</u>
	\$	<u>591,385</u>	<u>512,720</u>
		IN INR	
		<u>2010</u>	<u>2009</u>
Security deposits	Rs.	1,867,203	1,756,610
Other		<u>272,395</u>	<u>98,382</u>
	Rs.	<u>2,139,598</u>	<u>1,854,993</u>

(Continued)

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

Notes to Financial Statements

(Mexican pesos)

(13) Accruals-

Accruals include the following:

	Labor trial	Benefits to personnel (1)	Regulatory and freight expenses	Others	Total
Balances at December 31, 2009	\$ 911,954	2,227,839	-	618,411	3,758,204
Increases recorded in the income statement	688,046	-	2,106,089	1,749,897	4,544,032
Payments	<u>-</u>	<u>(2,227,839)</u>	<u>-</u>	<u>-</u>	<u>(2,227,839)</u>
Balances at December 31, 2010	\$ <u>1,600,000</u>	<u>-</u>	<u>2,106,089</u>	<u>2,368,308</u>	<u>6,074,397</u>

	IN INR				
	Labor trial	Benefits to personnel (1)	Regulatory and freight expenses	Others	Total
Balances at December 31, 2009	Rs. 3,310,178	8,086,530	-	2,244,686	13,641,394
Increases recorded in the income statement	2,497,445	-	7,644,606	6,351,713	16,493,764
Payments	<u>-</u>	<u>(8,086,530)</u>	<u>-</u>	<u>-</u>	<u>(8,086,530)</u>
Balances at December 31, 2010	Rs. <u>5,807,623</u>	<u>-</u>	<u>7,644,606</u>	<u>8,596,399</u>	<u>22,048,628</u>

(1) At December 31, 2009, includes mainly christmas bonuses for \$1,088,840 [IN INR 3,952,232] and performance bonuses for \$837,355 [IN INR 3,039,401].

(14) Tax on earnings (flat rate business tax (IETU))-

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

Because management estimates that the tax payable in future years will be IETU, deferred tax effects as of December 31, 2010 and 2009 have been recorded on the IETU basis.

The income tax benefit is as follows:

	<u>2010</u>	<u>2009</u>
Deferred IETU	\$ (3,890,377) =====	(318,198) =====
	IN INR	
	<u>2010</u>	<u>2009</u>
Deferred IETU	Rs. (14,075,170) =====	(1,151,223) =====

Income tax benefit attributable to loss before income taxes differed from the amounts computed by applying the Mexican statutory rates of 17.5% and 17% IETU for 2010 and 2009, respectively, as a result of the items shown in the next page.

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

Notes to Financial Statements

(Mexican pesos)

		IETU	
		<u>2010</u>	<u>2009</u>
Computed tax expense benefit	\$	(4,166,189)	(2,491,970)
Increase resulting from:			
Not deductible expenses		4,018	1,856,725
Interests, net		116,131	245,531
Effect of enacted changes in tax laws and rates		-	71,516
IETU loss carryforwards inflation effects		(671,677)	-
Equity in the loss of subsidiary company no subject to taxation		835,223	-
Others		<u>(7,883)</u>	<u>-</u>
 IETU benefit	 \$	 (3,890,377) =====	 (318,198) =====

		<u>2010</u>	IN INR <u>2009</u>
Computed tax expense benefit	Rs.	(15,122,283)	(9,045,263)
Increase resulting from:			
Not deductible expenses		14,584	6,739,474
Interests, net		421,528	891,220
Effect of enacted changes in tax laws and rates		-	259,586
IETU loss carryforwards inflation effects		(2,438,029)	-
Equity in the loss of subsidiary company no subject to taxation		3,021,791	-
Others		<u>(28,520)</u>	<u>-</u>
 IETU benefit	 Rs.	 (14,075,171) =====	 (1,151,223) =====

The tax effects of temporary differences that give rise to significant portions of the deferred IETU assets and liabilities, at December 31, 2010 and 2009, are as follows:

		IETU	
		<u>2010</u>	<u>2009</u>
Deferred tax assets:			
Suppliers and other accounts payable	\$	3,360,596	2,284,155
IETU tax credits		865,284	950,785
IETU loss carryforwards		<u>5,505,631</u>	<u>5,386,101</u>
Total gross deferred tax assets		<u>9,731,511</u>	<u>8,621,041</u>
Deferred tax liabilities:			
Accounts receivable		3,135,011	4,204,658
Inventories		63,738	1,412,301
Machinery, furniture and equipment		63,529	442,130
Prepaid expenses		<u>46,090</u>	<u>29,186</u>
Total gross deferred tax liabilities		<u>3,308,368</u>	<u>6,088,275</u>
Net deferred tax asset	\$	6,423,143	2,532,766
		=====	=====

		IN INR	
		IETU	
		<u>2010</u>	<u>2009</u>
Deferred tax assets:			
Suppliers and other accounts payable	Rs.	121,584,522,	8,263,947
IETU tax credits		3,130,550	3,439,888
IETU loss carryforwards		19,919,070	19,486,617
Total gross deferred tax assets		35208072	31,190,452
Deferred tax liabilities:			
Accounts receivable		11,342,297	15,212,221
Inventories		230,601	5,109,627
Machinery, furniture and equipment		229,844	1,599,602
Prepaid expenses		<u>166,751</u>	<u>105,593</u>
Total gross deferred tax liabilities		11,969,493	22,027,044
Net deferred tax asset	Rs.	23,238,578	9,163,408
		=====	=====

(Continued)

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

Notes to Financial Statements

(Mexican pesos)

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

At December 31, 2010, operating loss carryforwards and IETU tax credits, expire as shown below:

Inflation adjusted through December 31, 2010				
		Tax credits		
Operating loss carryforwards		IETU loss carryforwards	Tax credit inventories	Asset
2011	\$ -	-	656,640	49,714
2012	-	-	656,640	49,714
2013	-	-	656,640	49,714
2014	-	-	656,640	49,714
2015	-	-	656,640	49,714
2016	587,402	-	656,640	49,714
2017	18,341,557	-	656,640	49,714
2018	28,510,921	-	-	-
2019	-	31,460,750	-	-
2020	<u>7,182,580</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 54,622,360</u>	<u>31,460,750</u>	<u>4,596,480</u>	<u>347,998</u>

IN INR

Inflation adjusted through December 31, 2010				
		Tax credits		
Operating loss carryforwards		IETU loss carryforwards	Tax credit inventories	Asset
2011	RS. -	-	2,375,687	179,863
2012	-	-	2,375,687	179,863
2013	-	-	2,375,687	179,863
2014	-	-	2,375,687	179,863

2015	-	-	2,375,687	179,863
2016	2,125,188	-	2,375,687	179,863
2017	66,358,745	-	2,375,687	179,863
2018	103,150,944	-	-	-
2019	-	113,823,263	-	-
2020	<u>25,986,179</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Rs. 197,620,695	113,823,263	16,629,812	1,259,038
	=====	=====	=====	=====

15) Stockholders' equity (deficit)-

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

(a) Structure of capital stock-

At the Stockholders' Meeting held on July 31, 2009, it was agreed to increase the variable portion of capital stock in \$45,473,500 [IN INR 164,520,622] , issuing 454,735 series B-3 shares, with a par nominal value of \$100 [IN INR 362] each, paid in cash.

After the aforementioned activity, the Company's capital stock is comprised by 671,041 ordinary shares, divided in two series: 100 series A shares, that relate to the fixed portion, with a nominal value of \$500[IN INR 1,808] each and 670,941 unlimited series B, that relate to the variable portion, with a nominal value of \$100 [IN INR 362].

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

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(b) Comprehensive loss-

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

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

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

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

In the years ended December 31, 2010 and 2009, the Company suffered a loss of \$19,916,418 [IN INR 72,291,898] and \$14,340,448 [IN INR 52,052,443] , respectively and at such dates, it has a deficit of \$90,863,137 and \$70,946,719 [IN INR 329,811,750] , respectively; and the balance sheets shows an excess of short term liabilities over current assets of \$28,796,017 [IN INR 104,182,406] and \$9,423,179, [IN INR 34,092,543] respectively. Furthermore, the Company has lost all of its capital stock and, in accordance with Mexican law this may be cause for its dissolution, at the legal request of any interested party with outstanding credits. The financial statements neither include adjustments relating to the valuation and classification of assets nor with the classification and amount of liabilities that might be necessary should the Company not be able to continue as a going concern. The holding company has confirmed the financial support to Ranbaxy México, S. A. de C. V. to continue as going concern.

(16) Commitments and contingent liabilities-

- (a)** The Company leases facilities for administrative offices, as well as certain computer and transportation equipment, under defined term lease agreements. Total rental expense, reported under administrative expenses, aggregated \$1,964,256 [IN INR 7,129,786] in 2010 and \$763,965 [IN INR 2,773,013] in 2009. Total rents payable through 2012 under these agreements is \$1,473,192 [IN INR 5,329,928].
- (b)** The Company has a labor lawsuit with a former employee for labor obligations payments. The likelihood of a positive result of the legal process can not be determined now by the management and not by its legal counsel. In this regard, the Company recognized an estimate to cover any adverse situation for \$1,6000,000 [IN INR

57,887,120]and \$911,954 [IN INR 3,2999,399] at December 31, 2010 and 2009, respectively (see note 13).

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

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(Mexican pesos)

- (c) In accordance with Mexican tax law, the tax authorities are entitled to examine transactions carried out during the five years prior to the most recent income tax return filed.
- (d) In accordance with the Income Tax Law, companies carrying out transactions with related parties are subject to certain requirements as to the determination of prices, which should be similar to those that would be used in arm's-length transactions.

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

(17) Recently issued financial reporting standards-

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

FRS C-4 “Inventories”- FRS C-4 is effective beginning January 1, 2011 with retrospective application, supersedes Bulletin C-4 and establishes new valuation, presentation and disclosure rules for initial and subsequent recognition of inventories on the balance sheet. The principal changes are as follows:

- FRS C-4 eliminates: a) direct costing as a valuation system and, b) the inventory cost assignment formula (formerly method) referred to as Last In – First Out (LIFO).
- Inventory cost can only be modified solely to “Lower of cost or market value, except that the net realizable value is not to exceed market value.”
- For inventories acquired on an installment payment basis, the difference between the purchase price under normal credit conditions and the amount paid must be recognized as financial cost during the financing period.
- Under certain circumstances, estimates of impairment losses on inventories recognized in a prior period may be deducted or charged off against results of operations for the period in which such modifications occur.

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

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- Items whose benefits and risks have already been transferred to the entity must be recognized as inventories; therefore, prepayments are not part of inventory.

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

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

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

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

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

- The treatment for asset exchanges based on the economic substance is included.
- The bases for determination of the residual value of a component are added.

(Continued)

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- The requirement to assign an appraised value to property, plant and equipment acquired at no cost or at an inadequate cost is eliminated.
- Depreciation for components representative of a property, plant and equipment item is mandatory, independently of the depreciation of the rest of the item as if it were a single component.
- Depreciation of idle components must continue, unless depreciation is determined based on the activity.

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

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

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

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

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2011 FRS Revision-

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

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

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

Note : Conversion Rate 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 Mexican Peso = 0.2755
- ii) Items relating to balance sheet at Closing Rate : 1 Mexican Peso = 0.2764