Ranbaxy Pharmaceuticals, Inc.

Your Directors have the pleasure in presenting the Audited Financial Statements for the period ended March 31, 2014.

WORKING RESULTS **USD in Thousand**

Ranbaxy Pharmaceuticals, Inc.	**Period ended 03/31/14**	Period ended 12/31/12
Net Sales	**$353,265**	$837,349
Profit/ (Loss) before Interest, Depreciation, Amortization and Impairment	**32,252**	87,303
Interest	**330**	403
Exchange Loss/ (Gain) - (Net) on Loans	-	-
Depreciation, Amortization and Impairment	**2,127**	1,576
Profit/ (Loss) before Tax	**29,796**	85,324
Income Tax (benefit)/expense	**13,292**	28,365
Profit/(Loss) after Tax	**16,504**	56,959
Balance as per last balance sheet	**159,086**	102,127
Dividends distributed to parent Company	**(75,000)**	**-**
Balance after dividend adjustment	**100,590**	102,127
Excess tax benefit upon exercise of stock options	**-**	-
Balance available for appropriation	**100,590**	159,086

WORKING RESULTS **INR in Thousand**

Ranbaxy Pharmaceuticals, Inc.	**Period ended 03/31/14**	Period ended 12/31/12
Net Sales	**20,903,254**	44,778,021
Profit/ (Loss) before Interest, Depreciation, Amortization and Impairment	**1,908,462**	4,668,610
Interest	**19,527**	21,551
Exchange Loss/ (Gain) - (Net) on Loans	-	-
Depreciation, Amortization and Impairment	**125,858**	84,278
Profit/ (Loss) before Tax	**1,763,077**	4,562,781
Income Tax (benefit)/expense	**786,509**	1,516,845
Profit/(Loss) after Tax	**976,568**	3,045,936
Balance as per last balance sheet	**9,413,373**	5,461,337
Dividends distributed to parent Company	**(4,437,870)**	**-**
Balance after dividend adjustment	**5,952,071**	8,507,273
Excess tax benefit upon exercise of stock options	**-**	-
Balance available for appropriation	**5,952,071**	8,507,273

Net Revenue
The Company changed its reporting period from calendar to fiscal year effective March 31, 2014. In the financial statements and the notes presented, the comparable periods include fifteen (15 months) ending March 31, 2014 and twelve (12) months ending December 31, 2012.

The Company recorded sales of $353.3 [INR 20,905] million for the fifteen (15) months ended March 31, 2014. Strong sales of *Atorvastatin* during the year 2012 have declined due to (a) the loss of exclusivity in May 2012 and (b) the impact of the *Atorva* product recall in Q412.

Manufacturing and Active Pharmaceutical Ingredients (API)
The U.S. Food and Drug Administration ("US FDA") notified Ranbaxy ("RLL") for certain observations made on January 11, 2014, that it is prohibited from manufacturing and distributing active pharmaceutical ingredients (APIs) from its facility in Toansa, India, for FDA-regulated drug products. The Toansa facility is now subject to certain terms of a consent decree of permanent injunction entered against Ranbaxy in January 2012. As a result, Ranbaxy Inc. and subsidiaries are no longer receiving any API from the Toansa facility or RLL. As of March 31, 2014, RPI had an inventory reserve of USD 12.1 million. Ranbaxy Inc. has also charged RLL for the full provision through March 31, 2014.

Contingencies and Commitments
During May 2013, Ranbaxy Pharmaceuticals, Inc. paid $26.1[INR 1,544] million in partial payment of $500 [INR 29,586] million for civil and criminal fines under the settlement agreement with the U.S. Department of Justice. The legal settlement was recorded between RLL and US entity - Ranbaxy Pharmaceutical Inc. (RPI).

In the event that Ranbaxy Pharmaceuticals, Inc. (RPI) had any current agreements to supply certain Toansa related drugs to various wholesalers or retailers who may require additional stock now or in the future based on its current supply and market demand, have spelled-out in certain customer agreements to reimburse these customers for the difference between the contract price from the manufacturer and the price that would be required to procure from another vendor (Vendor Substitution). This clause in the agreement is commonly named Failure to Supply ("FTS"). In this case, Ranbaxy Inc. provided an additional FTS reserve of $5.6 million for the Toansa related drugs at March 31, 2014. Ranbaxy Inc. has also charged RLL for the full provision through March 31, 2014.

The pending lawsuit with the state of Louisiana regarding the Medicaid Program and reimbursement received by the state's pharmacist or doctors was settled for $5 million in June 2013. The typical reimbursement is calculated by taking the difference between the Average Wholesale Price ("AWP") and the Wholesale Average Cost ("WAC"), which is the price provided by the manufactures for reimbursement, and the actual price or cost of the drug.

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

Dividend
The Company declared dividends through its entities Ranbaxy Pharmaceutical Inc. ("RPI") of $75 [INR 4,438] million and Ohm Laboratories Inc. ("Ohm") of $55 [INR 3,254] million and recorded $130 [INR 7,692] million to Ranbaxy Inc. ("RI") with a corresponding credit to Dividend income. Ranbaxy USA ("RUSA") was credited with $156.8 [INR 9,278] million in Additional paid in capital ("APIC") and recorded $156.8 [INR 9,278] million to Ranbaxy Inc. ("RI") as a charge to Investment in subsidiaries. The declared stock dividend of $156.8 [INR 9,278] million from RUSA and the loan to RNBV from RPI for $358.4 [INR 21,207] million was charged to RLL.

Changes in Capital Structure
There were no changes to the Company's capital structure during the fifteen (15 months ended March 31, 2014.

Directors
The Board constitutes of: Venkat Krishnan, John P. Reilly, Gaurav Mehrotra and Rajiv Gulati.

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/-
Director

Dated: 19 May 2014

RANBAXY PHARMACEUTICALS INC.

Financial Statements

March 31, 2014 and December 31, 2012

(With Independent Auditors' Report Thereon)

Independent Auditors’ Report

To

The Board of Directors
Ranbaxy Laboratories Limited

At your request, we have audited the accompanying special purpose financial statements (‘referred to as financial statements’) of Ranbaxy Pharmaceuticals Inc. (‘the Company) which comprises the Balance Sheet as at March 31, 2014 and December 31, 2012, the related Statement of Income and Retained Earnings for the period then ended and notes, comprising a summary of significant accounting policies and certain other explanatory information to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements in accordance with the ‘basis of accounting’ as described in note 1 (b) of these financial statements and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above are prepared, in all material respects, in accordance with the basis of accounting as described in note 1 (b) of these financial statements.

Basis of Accounting and restriction on use and distribution

Without modifying our opinion, we draw attention to note 1(b) to the financial statements which describes the 'basis of accounting' and that these financial statements are prepared for the limited purpose of the information and use of the Board of Directors of Ranbaxy Laboratories Limited ('the intermediate holding company') within India. Accordingly, the Company has not presented all of the disclosures including Statement of Cash Flows, and Statement of Changes in Stockholders' Equity and Comprehensive Income/Loss that are required to present fairly the financial statements in conformity with U.S. generally accepted accounting principles. As a result, these financial statements will not be suitable for another purpose. Our report is intended solely for the Board of Directors of Ranbaxy Laboratories Limited and should not be used or distributed to any other party.

For **B S R & Co. LLP**
Chartered Accountants
Registration No.:101248W

Pravin Tulsyan
Partner
Membership No.: 108044

Place: Gurgaon
Date: 19 May 2014

RANBAXY PHARMACEUTICALS INC.
Balance Sheet

March 31, 2014 and December 31, 2012
(All amount in United States dollars, unless otherwise stated)

	March 31, 2014	December 31, 2012
ASSETS		
Current assets :		
Cash and cash equivalents (Refer to note 10)	45,249,652	166,093,508
Trade accounts receivable, net	26,652,613	46,581,394
Due from related parties	395,093,571	62,408,566
Inventories, net	21,762,445	24,087,108
Other current assets	1,287,714	395,988
Deferred tax assets	4,650,394	6,597,445
Total current assets	**492,696,389**	**306,164,009**
Property, plant and equipment, net	2,303,735	4,117,500
Intangible assets (excluding goodwill)	1,133,037	253,660
Goodwill	412,544	412,544
Due from related parties (Refer to note 8)	163,424,909	2,042,218,008
Deferred tax asset	676,271	24,288
Other assets	1,100	-
Total assets	**$ 660,647,985**	**$ 2,353,190,009**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	3,711,508	21,972,728
Due to related parties (Refer to note 8)	369,200,598	2,180,578
Current installments of obligations under capital leases	1,810,423	1,579,829
Accrued expenses and other current liabilities	19,460,445	50,054,828
Allowance for sales return	7,682,121	7,682,121
Total current liabilities	**401,865,095**	**83,470,084**
Obligations under capital leases, excluding current installments	317,705	2,548,548
Due to related parties (Refer to note 8 and note 11)	157,331,139	2,107,601,478
Other liabilities	45,727	37,252
Total liabilities	**559,559,666**	**2,193,657,362**
Stockholders' equity		
Common stock, $1 par value, Authorized 100 shares; issued and outstanding 100 shares as at March 31, 2014 and December 31, 2012	100	100
Additional paid in capital (Refer to note 9)	497,924	446,346
Retained earnings	100,590,295	159,086,201
Total stockholders' equity	**101,088,319**	**159,532,647**
Total liabilities and stockholders' equity	**$ 660,647,985**	**$ 2,353,190,009**

See accompanying notes to the financial statements

RANBAXY PHARMCEUTICALS INC.
Balance Sheet

March 31, 2014 and December 31, 2012
(All amount in Indian Rupees, unless otherwise stated)

	March 31, 2014	December 31, 2012
ASSETS		
Current assets :		
Cash and cash equivalents	2,709,559,975	9,076,147,960
Trade accounts receivable, net	1,476,204,358	2,545,431,370
Due from related parties	23,658,297,665	3,410,304,153
Inventories	1,303,140,401	1,316,235,369
Other current assets	77,108,613	21,638,707
Deferred tax assets	278,466,698	360,516,120
Total current assets	**29,502,777,710**	**16,730,273,680**
Property, plant and equipment, net	137,948,204	225,000,024
Intangible assets (excluding Goodwill)	67,846,527	13,861,202
Goodwill	24,703,235	22,543,390
Due from related parties	9,785,922,695	111,596,612,483
Deferred tax asset	40,495,269	1,327,213
Other Assets	65,868	-
Total assets	**39,559,759,508**	**128,589,617,992**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	222,245,988	1,200,695,492
Due to related parties	22,107,820,240	119,157,268
Current installments of obligations under capital leases	108,408,569	86,329,427
Accrued expenses and other current liabilities	1,165,296,108	2,735,236,498
Allowance for sales return	460,007,222	419,788,011
Total current liabilities	**24,063,778,127**	**4,561,206,697**
Obligations under capital leases, excluding current installments	19,024,250	139,264,939
Due to related parties	9,421,026,287	115,169,479,772
Other liabilities	2,738,160	2,035,625
Total liabilities	**33,506,566,824**	**119,871,986,983**
Stockholders' equity		
Common stock, \$1 par value, Authorized 100 shares; issued and outstanding 100 shares as at March 31, 2014 and December 31, 2012	3,137	3,137
Additional paid in capital	29,815,808	24,390,492
Retained earnings	4,102,903,485	7,564,199,686
Accumulative other comprehensive (loss) income	1,920,470,254	1,129,037,694
Total stockholders' equity	**6,053,192,684**	**8,717,631,118**
Total liabilities and stockholders' equity	**39,559,759,508**	**128,589,617,992**

See accompanying notes to the financial statements

RANBAXY PHARMACEUTICALS INC.
Statement of Income and Retained Earnings

Fifteen months ended March 31, 2014 and Year ended December 31, 2012
(All amount in United States dollars, unless otherwise stated)

	Fifteen months ended March 31, 2014	Year ended December 31, 2012
Net sales	342,857,868	830,137,645
Other operating income	10,407,608	7,211,544
Total revenue	**$ 353,265,476**	**$ 837,349,189**
Cost of goods sold (exclusive of depreciation and amortization)	264,626,743	728,334,895
Selling, general and administration expenses (exclusive of depreciation and amortization) (Refer to note 3 and note 4)	55,459,416	21,411,468
Research and development (exclusive of depreciation and amortization)	2,485,167	1,894,443
Depreciation and amortization	2,126,980	1,575,887
Operating income	**$ 28,567,170**	**$ 84,132,496**
Interest expense, net	(329,751)	(402,888)
Interest income	484,181	1,102,345
Other income	1,074,143	492,561
Income before taxes	**$ 29,795,743**	**$ 85,324,514**
Income tax expense	13,291,649	28,365,314
Net income	**$ 16,504,094**	**$ 56,959,200**
Retained earnings, beginning	159,086,201	102,127,001
Dividends (Refer to note 5)	(75,000,000)	-
Retained earnings, ending	**$ 100,590,295**	**$ 159,086,201**

See accompanying notes to the financial statements

RANBAXY PHARMACEUTICALS INC.
Statement of Income and Retained Earnings

Fifteen months ended March 31, 2014 and Year ended December 31, 2012
(All amount in Indian Rupees, unless otherwise stated)

	Fifteen months ended March 31, 2014	Year ended December 31, 2012
Net sales	20,287,447,818	44,392,387,422
Other operating income	615,834,811	385,644,088
Total revenue	**20,903,282,629**	**44,778,031,510**
Cost of goods sold (exclusive of depreciation and amortization)	15,658,387,176	38,948,390,086
Selling, general and administration expenses (exclusive of depreciation and amortization) (Refer Note 3 and 4)	3,281,622,223	1,144,998,314
Research and development (exclusive of depreciation and amortization)	147,051,317	101,307,115
Depreciation and amortization	125,856,801	84,272,052
Operating income	**1,690,365,112**	**4,499,063,943**
Interest expense, net	(19,511,895)	(21,544,813)
Interest income	28,649,757	58,948,966
Other income	63,558,753	26,340,161
Income before taxes	**1,763,061,728**	**4,562,808,257**
Income tax expense	786,488,107	1,516,861,711
Net income	**976,573,621**	**3,045,946,546**
Retained earnings, beginning	7,564,199,686	4,518,253,140
Dividends	(4,437,869.822)	-
Retained earnings, ending	**4,102,903,485**	**7,564,199,686**

See accompanying notes to the financial statements

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Incorporation and history

Ranbaxy Pharmaceuticals Inc. ('the Company or RPI') was incorporated on January 1, 2004 in the State of New Jersey. It is a wholly-owned subsidiary Ranbaxy Inc. ('Parent company') which is a wholly-owned subsidiary of Ranbaxy (Holdings) U.K. Limited ('RHUK'), which is a wholly owned subsidiary of Ranbaxy Holdings (Netherlands) BV ('RNBV'), which in turn is a wholly owned subsidiary of Ranbaxy Laboratories Limited ('intermediate holding company') ('RLL'). RLL is a subsidiary of Daiichi Sankyo Company Limited, Japan, which is also the ultimate holding company. The Company is a distributor of prescription pharmaceuticals. The Company obtains its products from its affiliates, RLL and third parties. The Company conducts its operations from a distribution facility in Jacksonville, Florida and sells to customers throughout the United States of America ('USA'). The Company distributes its products pursuant to rights obtained through Abbreviated New Drug Application ('ANDA') approvals in USA, 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 ('US FDA').

(b) Basis of accounting

The financial statements have been prepared in accordance with the recognition and measurement principles of US generally accepted accounting principles (US GAAP) and include the following:

- Balance Sheet as at ended March 31, 2014 and December 31, 2012;
- Statement of Income and Retained Earnings for the fifteen months period ended 31 March 2014 and twelve months period ended 31 December 2012; and
- Significant accounting policies and notes to the financial statements, to the extent considered required by the management.

These financial statements have been prepared for the limited purpose of the information and use of the management of RLL within India and hence contain only limited disclosures. Accordingly, certain disclosures (including Statement of Cash Flows and Statement of Changes in Stockholders' Equity and Comprehensive Income/Loss) that are required to present fairly the financial statements in conformity with US GAAP have been omitted.

The financial year of the Company has been changed from January-December to April-March effective 01 April 2014. In view of this, the current financial year of the Company is for a period of 15 months i.e. 01 January 2013 to 31 March 2014 ('current period') and, accordingly, the figures for the current period are not comparable with figures for the year ended 31 December 2012 ('previous year') presented in the statement of income and retained earnings and related notes.

(c) Use of estimates

The preparation of financial statements in conformity with 'basis of accounting' as discussed in 1(b) above requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the results of operations during the reporting period. The Company's most significant estimates relate to the determination of sales return and allowances for accounts receivable, accrued liabilities, valuation of inventory balances, determination of useful lives for property, plant and equipment and other long lived assets for impairment and deferred taxes. The management believes that the estimates used in the preparation of the financial statements are prudent and reasonable. Actual results could differ from these estimates. Appropriate changes in estimates are made as management become aware of changes in circumstances surrounding the estimates. Any change in estimates is recognized prospectively.

(d) Functional currency

Operations of the Company are carried out in USA and accordingly, functional currency of the Company is determined as U.S. Dollar ('USD' or '$')

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash balance placed with bank and cash on deposits placed with banks in the normal course of business operations. The Company considers all deposits placed with banks with an original maturity of three months or less to be cash equivalents.

(f) Revenue recognition

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

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

Allowances for sales return are estimated and provided for in the year of sales. Such allowances are made based on the historical trend. 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 product sales. 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 pays for that product. The Company estimates the amount of expected chargeback primarily based on historical experience regarding 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.

Interest income is recognized on a time proportion basis.

(g) Other operating income

Other operating income includes services rendered to fellow subsidiaries related to warehousing and logistics support. The Company charges the same to fellow subsidiaries based upon the agreed costs and markup as per the terms of agreement. The income is recognized when services are rendered to fellow subsidiaries.

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.

(h) Inventories

Inventories consist of traded goods which are stated at the lower of cost and market value. The cost of traded goods is determined using their 'moving weighted average' cost. A write down of inventory to the lower of cost and 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 and obsolete inventory. Such write-downs, if any, are included in the cost of goods sold.

(i) Other current assets

Other current assets comprise prepaid expenses, prepaid insurance, advance to suppliers, etc.

(j) Shipping and Handling expense

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

(k) 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.

(l) Property, plant and equipment

Property, plant and equipment including acquired under capital lease agreements are stated at cost less accumulated depreciation and impairment. 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, whichever is shorter. Upon retirement or disposal of assets, the cost of the asset and the related accumulated depreciation and impairment are eliminated from the accounts and the resulting gain or loss is credited or charged to statement of income and retained earnings.

The estimated useful lives of assets are as follows:

Leasehold Improvements	Shorter of remaining lease term or life of the assets
Leasehold building	10 years
Machinery and equipment	5 - 8 years
Computers	4 years
Office equipment	8 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 accounted in capital work-in-progress which is disclosed under property, plant and equipment.

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

(m) Intangibles

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:

Software	4 years
Licenses	5 years

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.

(n) Leases

Leases of property, plant and equipment that transfer substantially all of the benefits or risks and rewards of ownership 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 shown as obligation under capital lease.

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.

(o) 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.

(p) 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 pre-tax basis through voluntary contributions to the plan. The plan provides that the entity can make optional contributions in an amount up to the maximum allowable by Section 404 of the Code. The contributions by the Company are recognised as an expense as incurred.

(q) Income taxes

Ranbaxy Inc., the Parent company files a consolidated federal tax return including income/ losses of its subsidiaries. The tax expense/ benefit has been allocated to respective entities using separate return method and amount payable is included in due to related parties in the financial statements.

Under the separate return method, the current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry forwards.

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

Uncertain tax positions are recognized and measured using the two step approach. The first step is to evaluate the tax position for recognition by determining, based on 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. Interest and penalities related to unrecognized tax benefits is included income taxes expense/ benefits for the period.

(r) Business combinations

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is reviewed for impairment at least annually. The Company has the option to perform a qualitative assessment to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount prior to performing the two-step goodwill impairment test. If this is the case, the two-step goodwill impairment test is required. If it is more-likely-than-not that the fair value of a reporting is greater than its carrying amount, the two-step goodwill impairment test is not required.

If the two-step goodwill impairment test is required, first, the fair value of the reporting unit is compared with its carrying amount (including goodwill). If the fair value of the reporting unit is less than its carrying amount, an indication of goodwill impairment exists for the reporting unit and the entity must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying amount, step two does not need to be performed.

As at the balance sheet date, the Company performed a qualitative assessment of goodwill and determined that it is not more likely than not that the fair values of its reporting units are less than the carrying amounts. Accordingly, no impairment loss was recorded.

(s) Stockholder's equity

Holders of common stock are entitled to one vote per share, and to receive dividends and, upon liquidation or dissolution, are entitled to receive all assets available for distribution to stockholders. The holders have no preemptive or other subscription rights and there are no redemption or sinking fund provisions with respect to such shares.

2) CONTINGENCIES AND COMMITMENTS

The Company is also involved in 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 financial statements.

3) SETTELEMENT WITH US DOJ

During the current period, RLL Group has negotiated and settled with the Department of Justice of USA, ("US DOJ") for resolution of civil and criminal allegations on 13 May 2013 as per the decree of the court of Maryland. RLL had recorded a provision of USD 500,000,000 [INR 26,595,744,681] in the year ended 31 December 2011, to cover all civil and criminal liabilities. The settlement of this liability (along with related interest and other cost) in compliance with the terms of settlement was subject to regulatory/statutory provisions. The above mentioned decreetal amount of liability has been paid by the US fellow subsidiaries including the Company, a limited risk distributor. Under the said agreement of distribution, the Company has invoked indemnity for itself and inter alia its affiliates. The settlement amount has, accordingly, been apportioned between RLL and its US subsidiaries. Accordingly, accounting adjustments arising from apportionment of the total settlement amount between RLL and its US subsidiaries, including the impact of apportionment on provision for taxation, have been carried out and therefore USD 26,100,000 [INR 1,544,378,698] was apportioned to the US subsidiaries of which USD 17,300,000 [1,023,668,639] has been allocated to the Company and is included under selling, general and administration expenses.

4) LEGAL SETTLEMENT

The Company had a litigation wherein the State of Louisiana ("the State") had alleged that several pharmaceutical manufacturers including the Company had over-inflated their prices for certain drugs with the effect of overpayment by the State in reimbursement for uninsured or underinsured individuals. Further, the State contended that the Company, along with other manufacturers, intentionally misreported certain pricing and/or sales information to reporting services. During the current period, the Company has entered into a settlement agreement with the State and has paid a sum of USD 5,000,000 [INR 295,857,988] (excluding USD 1,050,000 [INR 62,130,178] incurred as attorney fees and court costs). The above settlement amount and other related costs are included under selling, general and administration expenses.

5) DECLARATION OF DIVIDEND

During the current period, the Company has declared dividend amounting to USD 75,000,000 [INR 4,437,869,822] (previous year USD nil [INR NIL]).

6) IMPORT ALERT

The US FDA conducted an inspection at RLL's manufacturing facility located at Toansa, India in January 2014. Consequent to the findings of the inspection, on 23 January 2014, the US FDA invoked the Consent Decree prohibiting RLL from manufacturing and distributing active pharmaceutical ingredients (APIs) from its Toansa manufacturing facility and finished drug products containing APIs manufactured at this facility into the US regulated market.

Considering the above matter, provisions (primarily relating to inventories, trade commitments,etc.) amounting to USD 7,544,633 [INR 446,427,988] has been recognized in these financial statements. In calculating these provisions, the management has used the best information and estimates, presently available. Since the matter involves significant judgement and in view of the inherent uncertainty of the present situation, the actual amounts may differ eventually. Based on the underlying arrangement with RLL, the entire amount of the above provision has been charged-back to RLL.

7) PRODUCT RECALL

On November 9, 2012, the Company had initiated a voluntary recall of Atorvastatin calcium tablets, solid oral dosage form, at the retail level. Accordingly management had recorded a provision for product recall amounting to USD 28,227,986 [INR 1,542,512,896]. Based on the underlying arrangements with RLL, the entire amount of the above provision had been charged-back to RLL.

During the current period, the Company has determined that out of the total provision as above, provision of USD 4,534,309 [INR 268,302,308] towards failure to supply/recall expenses is no longer required. Accordingly, this amount has been charged-back to RLL.

8) DUE TO/ FROM RELATED PARTIES

During the current period, the subsidiaries of the Parent company have agreed to offset their respective receivable and payable balances and, accordingly the resultant net receivable/ payable from the respective subsidiaries has been included under due from/to related parties in the financial statements as at 31 March 2014.

9) SHARE BASED COMPENSATION

During the current period, the Company has recorded stock option expense of USD 51,578 [INR 3,051,953] (previous year USD 53,163 [INR 2,842,941]) with a corresponding credit to the additional paid in capital.

10) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include USD Nil (previous year USD 125,374,071 [INR 6,851,042,131]) of fixed deposits with original maturity of three months or less as at March 31, 2014.

11) INCOME TAX PAYABLE

The liability towards income tax payable amounting to USD 79,226,368 [INR 4,744,093,892] (previous year USD 67,224,340 [INR 3,673,461,202]) is included under due to related parties (non-current) as at the balance sheet date. Also refer to note 1(q).

12) EMPLOYEE BENEFIT PLAN

The Company's contribution towards employee benefit plan is USD 124,890 [INR 7,389,941] (previous year USD 80,630 [INR 4,311,765]).

13) SUBSEQUENT EVENTS

The Company has evaluated that there are no subsequent events which require any adjustment/disclosures in the financial statements.

Note : Conversion rate used against Indian Rupees for the year 2014 and 2012 are:
i) Items relating to Profit and Loss account at Average rate: 1 USD= 0.0169 [2012: 1 USD =0.0187]
ii) Items relating to Balance sheet at Closing rate: 1 USD = 0.0167 [2012: 1 USD=0.0183]