



KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

Ranbaxy, Inc.:

We have audited the accompanying consolidated financial statements of Ranbaxy, Inc. and its subsidiaries, which comprise the consolidated balance sheet as of March 31, 2015, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the 2015 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ranbaxy, Inc. and its subsidiaries as of March 31, 2015, and the results of their operations and their cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

Other Matter

The accompanying consolidated financial statements of Ranbaxy, Inc. and its subsidiaries as of March 31, 2014 and for the fifteen months then ended were audited by other auditors whose report thereon dated September 17, 2014, expressed an unmodified opinion on those consolidated financial statements.

June 10, 2015

RANBAXY, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2015 and 2014

Assets	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents	\$ 116,861,825	45,301,441
Trade accounts receivable, net	65,387,277	71,059,534
Inventories, net	71,005,113	188,654,482
Due from related parties	175,765,219	577,602,775
Other current assets	11,371,484	5,134,108
Deferred tax asset	20,282,176	18,656,792
Total current assets	<u>460,673,094</u>	<u>906,409,132</u>
Property, plant and equipment, net	94,911,981	97,917,126
Intangible assets, net	30,571,914	33,554,290
Goodwill	7,826,846	7,826,846
Deferred tax asset	436,726	6,316,667
Other assets	489,740	496,208
Total assets	<u>\$ 594,910,301</u>	<u>1,052,520,269</u>
Liabilities and Stockholder's Equity		
Current liabilities:		
Trade accounts payable	\$ 23,002,006	17,350,231
Current installments of obligations under capital lease	350,433	1,849,691
Due to related parties	9,395,439	522,700,863
Income taxes payable	7,017,885	9,930,990
Accrued expenses and other current liabilities	88,675,282	84,162,735
Allowances for sales returns	13,080,839	13,080,839
Total current liabilities	<u>141,521,884</u>	<u>649,075,349</u>
Obligations under capital leases	16,691	367,126
Other liabilities	612,980	21,439,013
Total liabilities	<u>142,151,555</u>	<u>670,881,488</u>
Commitments and contingencies (note 11)		
Stockholder's equity:		
Class A Common Stock, \$1 par value, Authorized 15,000,000 shares; issued and outstanding 13,000,000 shares as of March 31, 2015 and 2014.	13,000,000	13,000,000
Class B Common Stock, no par value, Authorized 1,500 shares; issued and outstanding 519 shares as of March 31, 2015 and 2014	—	—
Additional paid-in capital	47,256,385	46,354,476
Retained earnings	391,935,819	321,717,763
Total equity attributable to Ranbaxy Inc. and its subsidiaries	<u>452,192,204</u>	<u>381,072,239</u>
Noncontrolling interest	566,542	566,542
Total stockholder's equity	<u>452,758,746</u>	<u>381,638,781</u>
Total liabilities and stockholder's equity	<u>\$ 594,910,301</u>	<u>1,052,520,269</u>

See accompanying notes to consolidated financial statements.

RANBAXY, INC. AND SUBSIDIARIES

Consolidated Statements of Income

	Year ended March 31, 2015	Fifteen months ended March 31, 2014
Net sales	\$ 599,044,849	637,107,454
Other operating income	9,108,466	19,279,579
Total revenue	<u>608,153,315</u>	<u>656,387,033</u>
Cost of goods sold	352,161,414	362,031,900
Selling, general and administrative expenses	118,291,755	193,716,283
Research and development expenditure	12,196,553	22,811,501
Depreciation and amortization	<u>16,390,016</u>	<u>18,652,408</u>
Operating income	109,113,577	59,174,941
Interest expense, net	(254,426)	(364,572)
Interest income	377,480	483,571
Other income, net	<u>877,108</u>	<u>222,363</u>
Income before income taxes	110,113,739	59,516,303
Income tax expense	<u>39,895,683</u>	<u>24,998,132</u>
Net income	70,218,056	34,518,171
Less net income attributable to noncontrolling interest	—	(566,542)
Net income attributable to Ranbaxy Inc. and subsidiaries	70,218,056	33,951,629
Retained earnings, beginning of period	<u>321,717,763</u>	<u>287,766,134</u>
Retained earnings, end of period	<u>\$ 391,935,819</u>	<u>\$ 321,717,763</u>

See accompanying notes to consolidated financial statements.

RANBAXY, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity

	<u>Common stock</u>		<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Non- controlling interest</u>	<u>Total stockholders' equity</u>
	<u>Shares</u>	<u>Amount</u>				
Balance as at January 1, 2013	13,000,000	\$ 13,000,000	45,854,152	287,766,134	—	346,620,286
Net income	—	—	—	33,951,629	566,542	34,518,171
Stock-based compensation expense	—	—	500,324	—	—	500,324
Balance as at March 31, 2014	13,000,000	13,000,000	46,354,476	321,717,763	566,542	381,638,781
Net income	—	—	—	70,218,056	—	70,218,056
Stock-based compensation expense	—	—	901,909	—	—	901,909
Balance as at March 31, 2015	<u>13,000,000</u>	<u>\$ 13,000,000</u>	<u>47,256,385</u>	<u>391,935,819</u>	<u>566,542</u>	<u>452,758,746</u>

See accompanying notes to consolidated financial statements.

RANBAXY, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Year ended March 31, 2015	Fifteen months ended March 31, 2014
	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Net income	\$ 70,218,056	34,518,171
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,390,016	18,652,408
Property, plant and equipment written off	67,324	28,682
Deferred income taxes	4,254,557	(18,870,708)
Provision for inventory obsolescence	2,571,384	5,937,076
Stock-based compensation expense	901,909	500,324
Unclaimed balances written back	—	(1,357,942)
Interest income	—	(33,463)
Change in operating assets and liabilities:		
Trade accounts receivable	5,672,257	(11,221,496)
Inventories	115,077,985	(137,598,205)
Other assets	(6,230,909)	148,852
Trade accounts payable, accrued expenses, other liabilities and allowance for sales returns	(12,561,794)	16,302,731
Income taxes payable	(2,913,105)	(2,628,691)
Due to/from related parties	206,932,131	181,767,271
Net cash provided by operating activities	<u>400,379,811</u>	<u>86,145,010</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(6,321,611)	(22,364,140)
Purchases of intangible assets	(2,248,124)	(11,706,610)
Settlement with U.S. Department of Justice	—	(489,267,148)
Loans made	(15,000,000)	(40,000,000)
Loans repaid	55,000,000	—
Net cash provided by (used in) investing activities	<u>31,430,265</u>	<u>(563,337,898)</u>
Cash flows from financing activities:		
Repayment of capital lease obligation	(1,849,692)	(2,051,514)
Loan taken (repaid) during the period	(358,400,000)	358,400,000
Net cash (used in) provided by financing activities	<u>(360,249,692)</u>	<u>356,348,486</u>
Net increase (decrease) in cash and cash equivalents	71,560,384	(120,844,402)
Cash and cash equivalents beginning of the period	<u>45,301,441</u>	<u>166,145,843</u>
Cash and cash equivalents end of the period	<u>\$ 116,861,825</u>	<u>45,301,441</u>
Supplementary cash flow information:		
Cash paid during the period for income taxes	\$ 38,367,152	46,497,531
Cash paid during the period for interest	333,358	364,572
Noncash investing activities:		
Increase in accrued purchases of property, plant and equipment	1,900,083	—

See accompanying notes to the consolidated financial statements.

LANBAXY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2015 and 2014

(1) The Company

Ranbaxy, Inc. (Ranbaxy) was incorporated on July 1, 1994 in the State of Delaware. It is a wholly owned subsidiary of Ranbaxy (Holdings) U.K. Limited (RHUK), which is a wholly owned subsidiary of Ranbaxy (Netherlands) BV (RNBV), which in turn is a wholly owned subsidiary of Ranbaxy Laboratories Limited (RLL). RLL is a subsidiary of Sun Pharmaceuticals Industries Limited (effective March 25, 2015), which is the ultimate parent company. Ranbaxy and its subsidiaries (the Company) are manufacturer and distributor of prescription, branded and over-the-counter drugs. The Company obtains its products from its owned manufacturing plants, RLL and third parties. The Company operates two manufacturing facilities in New Jersey and sells to customers throughout the United States of America and Canada. 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).

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The accompanying consolidated financial statements have been prepared in conformity of U.S. generally accepted accounting principles (U.S. GAAP). The consolidated financial statements are prepared in U.S. Dollars and include the accounts of its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements include the accounts of Ranbaxy and the following subsidiaries:

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

(b) Change in Fiscal Year

Effective April 1, 2014, the Company changed its fiscal year-end from December 31 to March 31. Accordingly, the operating results for the year ended March 31, 2015 (fiscal 2015) are not comparable to the 15 months ended March 31, 2014 (fiscal 2014).

(c) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP 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 consolidated financial statements and the results of operations during the reporting periods. The most significant estimates relate to the deferred tax assets, determination of allowances for sales returns and accounts receivable, accrued liabilities, valuation of inventory balances, determination of useful lives for property, plant and equipment and intangible assets, and other long lived assets for impairment. Management believes that the estimates used in the preparation of the consolidated financial statements are prudent and

RANBAXY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2015 and 2014

reasonable. Actual results could differ from these estimates, with changes in estimates recognized prospectively.

(d) Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances placed with banks 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.

(e) 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 generally upon delivery to the customer. Revenue from services, included in net sales, is recognized per the terms of the contract with customers when the related services are rendered.

Revenue is presented net of applicable cash discounts, volume discounts, rebates, chargebacks, patient coupons and other credits and allowances as applicable. Allowances for sales returns are estimated and provided for at the time of sale. Such allowances are made based on the historical trend. The Company evaluates the allowance for sales returns of all products at the end of each reporting period and necessary adjustments, if any, are made.

Chargebacks represent the difference between the invoice price paid by a wholesaler for a particular product and the negotiated contract price that the ultimate customer pays for that product. The Company estimates the amount of expected chargebacks primarily based on historical experience regarding expected wholesaler inventories and current contract prices.

The Company has a patient coupon program in relation to its certain products. These patient coupons enable the eligible customers to a discount at the time of dispensing of prescriptions and the related cost of such patient coupons is borne by the Company. Such discount is estimated based on historical experience including usage of coupons by the eligible customers.

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.

The Company manufactures exhibit batches for RLL and also provides business support services to RLL and Ranbaxy Canada. The Company recovers cost of manufacturing of exhibit batches and cost of services along with markup as per the terms of the respective agreements.

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.

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

RANBAXY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2015 and 2014

(f) Inventories

Inventories consist of raw materials, packing material, work-in-process and finished goods and are stated at the lower of cost or market. Finished goods and work-in-process are determined using the first-in, first-out (FIFO) method. Raw materials and packing materials are determined using weighted-average cost.

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 cost of goods sold.

(g) Research and Development

Research and development costs are 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.

(h) 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 lease term, whichever is shorter. Upon retirement or disposal, the cost and the related accumulated depreciation are eliminated from the accounts and the resulting gain or loss is credited or charged to the consolidated statements of income and retained earnings.

The estimated useful lives of assets are as follows:

Buildings	31–39 years
Machinery and equipment	5–8 years
Computers	4 years
Office equipment	8 years
Furniture and fixtures	8 years

Advances towards the acquisition of property, plant and equipment and the cost of property, plant and equipment not yet placed in service are recorded as work-in-progress. The interest cost incurred for funding an asset during its construction period is capitalized based on the actual investment in the asset and the average cost of funds. The capitalized interest is included in the cost of the relevant asset and is depreciated over the estimated useful life of the asset.

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

(i) Impairment of Long-Lived Assets

Long-lived assets 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 estimated fair value.

RANBAXY, INC. AND SUBSIDIARIES

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(j) 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 Company can make optional contributions in an amount up to the maximum allowable by Section 404 of the Code. The contributions by the Company are recognized as an expense as incurred.

(k) Employee Stock Option Scheme

The Company recognizes all employee stock-based compensation as a cost in the consolidated financial statements. Stock options are measured at grant date fair value of the award estimated using the Black-Scholes option pricing model.

(l) Income Taxes

Income taxes are accounted for using the asset and liability method. The current charge for income taxes is calculated in accordance with the relevant applicable tax regulations. 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 carryforwards.

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.

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 penalties, in any, related to unrecognized tax benefits are included in income tax expense for the period.

(m) Goodwill and Other Intangibles

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 unit 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

RANBAXY, INC. AND SUBSIDIARIES

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Company performs 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 of 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.

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:

<u>Intangible assets description</u>	<u>Useful life</u>
Trademarks	15 years
Licenses	5–15 years
Technical knowhow	15 years
Software	4 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.

(3) Financial Instruments and Concentration of Risk

During fiscal 2015 and fiscal 2014, the Company's four largest customers account for 73% and 60%, respectively, of the Company's net revenue. Further, during fiscal 2015 and fiscal 2014, no other individual customers accounted for more than 3% and 6%, respectively, of the Company's net revenue.

The Company is subject to a concentration of credit risk with respect to its accounts receivable balance, all of which is due from wholesalers, distributors, chain drug stores and service providers in the health care and pharmaceutical industries. As of March 31, 2015 and 2014, approximately 82% and 62% of the net accounts receivable balance was due from the Company's three largest customers.

Certain of the Company's finished products and raw materials were obtained from RLL. Accordingly, the Import Alert discussed in note 11, has had an adverse effect on the Company's result of operations, financial condition and cash flows. The Company continues to identify alternate sources of supply for the U.S. market. During fiscal 2015 and fiscal 2014, net revenue from sale of third-party manufactured products (excluding RLL) accounted for approximately 49% and 53%, respectively, of the net revenue. During fiscal 2015 and fiscal 2014, the Company's three largest third-party vendors (excluding RLL) accounted for 67% and 76%, respectively, of the total product purchases.

RANBAXY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2015 and 2014

(4) Trade Accounts Receivable, net

	March 31	
	<u>2015</u>	<u>2014</u>
Accounts receivable, gross	\$ 115,520,206	98,240,966
Deductions:		
Cash discount	3,146,272	2,491,831
Direct and indirect rebates (including administrative fees, service fees and related allowances, etc.)	7,620,004	4,937,808
Chargebacks	31,091,143	13,648,243
Other deductions	8,275,510	6,103,550
	<u>50,132,929</u>	<u>27,181,432</u>
	<u>\$ 65,387,277</u>	<u>71,059,534</u>

(5) Inventories, net

	March 31	
	<u>2015</u>	<u>2014</u>
Raw materials	\$ 11,227,371	62,422,466
Packing materials	1,943,302	2,857,557
Stores and spares	1,765,557	1,836,638
Work-in-process	12,523,527	64,866,011
Finished goods	43,545,356	56,671,810
	<u>\$ 71,005,113</u>	<u>188,654,482</u>

As of March 31, 2015 and 2014, the reserve balance for slow-moving and obsolete inventory was \$37,001,162 and \$34,429,778, respectively.

(6) Other Current Assets

	March 31	
	<u>2015</u>	<u>2014</u>
Prepaid expenses	\$ 3,519,834	4,152,699
Advance to suppliers	898,147	876,339
Other receivables	6,953,503	105,070
Total other current assets	<u>\$ 11,371,484</u>	<u>5,134,108</u>

RANBAXY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2015 and 2014

(7) Property, Plant and Equipment

	March 31, 2015		
	Cost	Accumulated depreciation	Net book value
Land	\$ 1,583,500	—	1,583,500
Building	73,428,521	15,132,256	58,296,265
Capital leased assets	12,441,905	12,204,200	237,705
Plant and machinery	80,028,438	53,722,522	26,305,916
Computers	8,379,375	5,763,363	2,616,012
Office equipment	373,507	275,769	97,738
Furniture and fixtures	3,118,161	2,530,356	587,805
Work in progress (including capital advances)	5,187,040	—	5,187,040
	<u>\$ 184,540,447</u>	<u>89,628,466</u>	<u>94,911,981</u>

	March 31, 2014		
	Cost	Accumulated depreciation	Net book value
Land	\$ 1,583,500	—	1,583,500
Building	71,254,944	13,160,029	58,094,915
Capital leased assets	12,787,518	11,353,993	1,433,525
Plant and machinery	75,695,125	47,783,097	27,912,028
Computers	6,156,875	4,503,432	1,653,443
Office equipment	623,951	494,800	129,151
Furniture and fixtures	3,157,721	2,479,813	677,908
Work in progress (including capital advances)	6,432,656	—	6,432,656
	<u>\$ 177,692,290</u>	<u>79,775,164</u>	<u>97,917,126</u>

Work in progress primarily comprises expansion of the Company's manufacturing activities and includes building, machinery and equipment which have not been completed and placed in service as of the end of the period.

Depreciation expense was \$11,159,517 and \$13,379,895 for the years ended March 31, 2015 and 2014, respectively.

As of March 31, 2015 and 2014, capital advances were \$2,462,031 and \$2,014,721 respectively.

RANBAXY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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amortized over the remaining life of the license. During fiscal 2014, the Company acquired exclusive license and distribution rights to sell Desvenlafaxine for \$1,000,000, which is being amortized over a period of 5 years.

Amortization expense was \$5,230,499 and \$5,272,513 for the years ended March 31, 2015 and 2014, respectively.

The estimated amortization schedule for the intangible assets is below:

	Amount
Year ending March 31:	
2016	\$ 5,023,724
2017	4,781,057
2018	4,616,010
2019	4,076,318
2020	3,803,621
2021 and thereafter	8,271,184
	\$ 30,571,914

(10) Accrued Expenses and Other Current Liabilities

	March 31	
	2015	2014
Accrued expenses	\$ 45,064,082	31,493,578
Medicaid rebates	12,312,908	6,543,458
Employee-related liabilities	2,576,542	9,754,701
Advances from customers	222,227	958,148
Bank overdraft	1,723,138	3,691,080
Failure to supply provision	—	7,483,346
Provision towards legal settlements	19,750,000	20,000,000
Other current liabilities	14,563,283	4,238,424
	\$ 96,212,180	84,162,735

Medicaid rebates principally comprise amounts due under U.S. Government pricing programs such as Medicaid, Medicare and Tricare (Department of Veteran Affairs). These rebates have been made as per the stipulated regulations and prescribed guidelines, which consider the calculation of the average manufacturers' price.

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The activity in the allowance for sales returns provision is given below:

	March 31	
	2015	2014
Balance at the beginning of the period	\$ 13,080,839	12,263,143
Less provision utilized during the period	(11,287,098)	(14,047,949)
Add provision made during the period	11,287,098	14,865,645
Balance at the end of the period	\$ 13,080,839	13,080,839

(11) Commitments and Contingencies

The Company is 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 consolidated financial statements.

(a) Settlement With US DOJ

During fiscal 2014, RLL and its U.S. subsidiaries negotiated and settled with the U.S. Department of Justice (US DOJ) for resolution of civil and criminal allegations resulting in payment of \$515,367,148 of interest and penalties, of which \$26,100,000 was apportioned to the Company and its subsidiaries and is included in selling, general and administration expenses in the consolidated statements of income during fiscal 2014. The remaining amount of \$489,267,148 is included in due from related parties in the consolidated balance sheet as of March 31, 2014, and since this amount has been paid by the U.S. subsidiaries on behalf of RLL, it has been presented as a cash outflow from investing activities in the cash flow statement.

(b) 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 fiscal 2014, the Company entered into a settlement agreement with the State and paid \$5,000,000 (excluding \$1,050,000 incurred as attorney fees and court costs). The above settlement amount along with related cost is included under selling, general and administration expenses in the consolidated statement of income.

(c) Import Alert

The U.S. FDA conducted an inspection at RLL's manufacturing facility located at Toansa, India in January 2014 and invoked a Consent Decree prohibiting RLL from manufacturing and distributing

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active pharmaceutical ingredients (APIs) from its Toansa manufacturing facility and finished drug products containing APIs manufactured at this facility into the U.S. regulated market.

As a result of this matter, the Company recorded a \$19,586,332 provision relating to inventories during fiscal 2014. Based on the underlying arrangement with RLL, the entire amount of the above provision has been charged-back to RLL.

(d) Product Recall

In November 2012, the Company initiated a voluntary recall of Atorvastatin calcium tablets, solid oral dosage form, at the retail level. Accordingly, the Company recorded a provision for product recall of \$37,598,757. Based on the underlying arrangements with RLL, the entire amount of the above provision has been charged-back to RLL.

During fiscal 2014, the Company determined that \$4,534,309 of the provision towards failure to supply/recall expenses was no longer required. Accordingly, this amount has been credited to RLL.

(e) Capital Lease Obligation

The Company has certain plant and equipment on leases which have been recorded as capital lease transactions. The following is a schedule by years of future minimum lease payments under capital leases, together with the present value of net minimum lease payments:

	<u>Amount</u>
Year ended March 31:	
2016	\$ 356,040
2017	13,877
2018	<u>3,680</u>
Total minimum lease payments	373,597
Less amount representing interest	<u>6,473</u>
Present value of net minimum lease payments	<u>\$ 367,124</u>

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(f) Operating Leases

During fiscal 2015 and fiscal 2014, rental expense under operating leases was \$1,744,757 and \$1,982,564, respectively. Future minimum lease payments for noncancelable operating leases are as follows:

	Amount
Year ending March 31:	
2016	\$ 1,206,671
2017	968,023
2018	5,025
2019	1,020
	\$ 2,180,739

(g) Capital Commitments

As of March 31, 2015 and 2014, the Company had committed to spend \$1,819,000 and \$3,956,169, respectively, under agreements to purchase property, plant and equipment. This amount is net of capital advances paid in respect of these purchases.

(12) Income Taxes

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

	Year ended March 31, 2015	Fifteen months ended March 31, 2014
Federal:		
Current	\$ 34,671,123	43,459,362
Deferred	3,966,306	(19,412,829)
	38,637,429	24,046,533
State:		
Current	970,026	409,478
Deferred	288,228	542,121
	1,258,254	951,599
	\$ 39,895,683	24,998,132

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	Year ended March 31, 2015		Fifteen months ended March 31, 2014	
	Amount	Rate	Amount	Rate
Federal taxes	\$ 38,539,809	35.0%	\$ 20,898,854	35.0%
State income taxes	867,195	0.7%	800,156	1.3%
Federal R&D credit true up	(257,918)	(0.2)%	(568,365)	(0.9)%
Increase in reserve for uncertain tax positions	5,066	—%	243	—%
Decrease in valuation allowance	—	—%	(181,859)	(0.3)%
Permanent items	741,531	0.7%	4,049,103	6.9%
	<u>\$ 39,895,683</u>	<u>36.2%</u>	<u>\$ 24,998,132</u>	<u>42.0%</u>

The following is a summary of deferred tax assets (liabilities) as at March 31, 2015 and 2014:

	March 31	
	2015	2014
Current:		
Allowances for receivables	\$ 4,648,703	4,659,880
Inventory capitalization	421,640	270,239
Accrued expenses and deferred compensation	5,488,965	4,746,297
Inventory obsolescence reserve	2,732,033	1,881,689
Texas settlement accrual	6,990,835	7,098,687
	<u>20,282,176</u>	<u>18,656,792</u>
Noncurrent:		
Basis of goodwill	(1,411,489)	(1,400,648)
Deferred revenue and miscellaneous expenses	397,825	162,405
Texas settlement accrual	—	7,009,954
Basis of fixed assets	1,450,390	544,956
	<u>436,726</u>	<u>6,316,667</u>
Total noncurrent		
	<u>436,726</u>	<u>6,316,667</u>
Net deferred tax assets	<u>\$ 20,718,902</u>	<u>24,973,459</u>

The Company is subject to U.S. federal income tax as well as income tax in multiple state jurisdictions.

As of March 31, 2015 and 2014, the reserve for uncertain tax positions was \$288,616 and \$280,080, respectively.

During the period ended March 31, 2015, the Company is currently under examination by the Internal Revenue Service for the December 31, 2013 tax year. This examination is at the initial stage and is expected to be completed within the next 12 months.

Similarly, the Company is currently under examination by the state of Michigan for the 2010 to 2011 tax years. This examination is at the final stage and is expected to be completed within the next 12 months.

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(13) Related-Party Transactions

	Year ended March 31, 2015	Fifteen months ended March 31, 2014
Transactions with RLL:		
Settlement with U.S. DOJ (including related interest and other costs) recoverable	\$ —	489,267,148
Settlement with State of Oregon recoverable	—	2,220,370
Purchase of goods	130,167,431	188,225,095
Royalty charges paid	5,960,415	4,318,296
Reversal of product recall provision credited back	—	4,534,309
Business support and market research expenses	2,903,998	10,580,231
Income from exhibit batches manufactured (Cost plus mark up)	4,024,463	5,214,950
Claims towards inventory provision/ write off and other costs recovered	106,967	19,586,334
Management fees	7,072,860	—
Transactions with Ranbaxy Pharmaceuticals Canada Inc.:		
Management fees income	1,274,133	1,851,225
Sale of goods	2,437,155	6,646,189
Transactions with Daiichi Sankyo Inc.:		
Traded purchases of goods	12,869,479	11,095,661
Branded prescription drug fee	2,905,154	2,028,791
Transactions with RNBV:		
Loan given	15,000,000	40,000,000
Loan amount received back	55,000,000	—
Interest income	299,895	33,463
Loan taken	—	358,400,000
Loan repaid	358,400,000	—
Insurance charges reimbursable	—	213,914
	March 31	March 31
Due to related party	2015	2014
Amount payable to Sun Pharmaceutical Industries Ltd	\$ 1,858,541	161,663,501
Amount payable to RNBV	—	358,613,914
Amount payable to Daiichi Sankyo, Inc.	7,536,898	2,423,449
Total	<u>\$ 9,395,439</u>	<u>522,700,864</u>

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<u>Due from related party</u>	<u>March 31, 2015</u>	<u>March 31, 2014</u>
Amount receivable from Sun Pharmaceutical Industries Ltd	\$ 171,965,584	532,122,882
Amount receivable from RNBV	—	40,033,463
Amount receivable from Ranbaxy Pharmaceuticals Canada Inc.	3,799,635	5,446,428
	<u>\$ 175,765,219</u>	<u>577,602,773</u>

(14) Royalty and Profit Share Agreements

The Company has entered into several distribution and profit share arrangements wherein a specified percentage of the profit earned is paid by the Company to third parties as royalty on profit share expense. During fiscal 2015 and 2014, royalty and profit share expense was \$58,740,804 and \$90,500,761, respectively. Of these amounts, \$57,027,585 and \$88,594,479, respectively, have been included in cost of goods sold and \$1,713,219 and \$1,906,282, respectively, have been included in selling, general and administrative expenses.

(15) Share-Based Compensation

RLLs' Employee Stock Option Schemes (ESOSs) provide for the grant of stock options to eligible employees and Directors of RLL and its subsidiaries. The ESOSs are administered by the Compensation Committee (Committee) of the Board of Directors of RLL. Options are granted at the discretion of the Committee to selected employees depending upon certain criterion.

The options vest evenly over five years from the date of grant and expire ten years from the date of grant.

	<u>Year ended March 31, 2015</u>		
	<u>Stock options</u>	<u>Weighted average exercise price</u>	<u>Weighted average remaining contractual life (years)</u>
Outstanding at the beginning of the period	635,315	\$ 5.50	
Granted during the period	104,000	0.08	
Forfeited and lapsed during the period	(213,744)	6.23	
Exercised during the period	(187,322)	3.55	
Outstanding, end of the period	<u>338,249</u>	4.45	2.84
Exercisable at the end of the period	255,681	5.86	3.07

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	<u>Period ended March 31, 2014</u>		
	<u>Stock options</u>	<u>Weighted average exercise price</u>	<u>Weighted average remaining contractual life (years)</u>
Outstanding at the beginning of the period	882,730	\$ 6.42	
Granted during the period	89,355	0.08	
Forfeited and lapsed during the period	(254,106)	6.57	
Exercised during the period	(82,664)	0.89	
Outstanding, end of the period	<u>635,315</u>	5.50	2.97
Exercisable at the end of the period	518,271	6.40	3.18

The following table summarizes information about stock options outstanding:

	<u>March 31, 2015</u>					
	<u>Options outstanding</u>			<u>Options exercisable</u>		
<u>Range of exercise prices</u>	<u>Number of outstanding options</u>	<u>Weighted average remaining contractual life (years)</u>	<u>Weighted average exercise price</u>	<u>Number of outstanding options</u>	<u>Weighted average exercise price</u>	<u>Weighted average remaining contractual life (years)</u>
Up to \$4.83	144,210	2.71	\$ 2.21	61,642	\$ 3.48	3.08
\$4.84–\$7.53	194,039	2.93	6.75	194,039	2.93	6.75
	<u>338,249</u>			<u>255,681</u>		

The weighted average grant date fair value of options granted during year ended March 31, 2015 and period ended March 31, 2014 was \$0.08, respectively.

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The fair value of options issued under the share-based compensation plans is calculated using a Black-Scholes model. The following table summarizes the assumptions used in calculating the grant date fair value for options granted in the year ended March 31, 2015 and period ended March 31, 2014:

	Year ended March 31, 2015	Period ended March 31, 2014
Dividend yield	0.43%	0.41%
Expected life of options from the date(s) of grant	2.25 years	2.25 years
Risk free interest rate	8.64%	7.76%
Volatility	40.47%	44.83%

(16) Employee Benefit Plan

The Company's contribution to the employee benefit plan was \$1,531,134 and \$1,726,881 in fiscal 2015 and fiscal 2014, respectively.

(17) Subsequent Events

The Company has evaluated subsequent events through June 10, 2015, the date the consolidated financial statements were available for issuance.