

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF ETNA BIOTECH S.R.L.,

We have audited the accompanying financial statements of **ETNA BIOTECH S.R.L.**, ("the Company") which comprise the Balance Sheet as at 31st December, 2014 and the Statement of Profit and Loss for the year ended on that date and a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position and financial performance of the Company in accordance with the accounting principles and the Accounting Standards generally accepted in the respective country i.e. Italy. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and 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 broad review. We conducted the review of these financial statements in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We have not conducted any detailed audit procedures of these financial statements. However, we have carried out broad review of the certified financial statements as submitted by the management in accordance with the preceding paragraph. We believe that our broad review of financials provides a reasonable basis for our opinion. We also believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis our audit opinion.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in Italy:

- (a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st December, 2014;
and
- (b) in the case of the Statement of Profit and Loss, of the Profit for the year ended on that date.

Report on Other Legal and Regulatory Requirements

Further to our comments in the annexure referred to above, we report that:

- (i) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.
- (ii) The accounts and financial statements duly prepared and certified by the Management in accordance with the accounting standards generally accepted and prevalent in Italy. The accounts have been submitted to us for our review and have been appropriately verified and reviewed by us in preparing and submitting our report thereon.
- (iii) The Balance Sheet and the Statement of Profit and Loss dealt with by this Report are in agreement with the books of account.
- (iv) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements including Balance Sheet and statement of Profit and Loss dealt with by this report comply with the accounting standards generally accepted in Italy.

- (v) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
- a. The Company does not have any pending litigations which would impact its financial position.
 - b. The Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses.
 - c. Since the Company is incorporated outside India, this clause regarding reporting on amounts which were required to be transferred to the Investor Education and Protection Fund by the Company is not applicable.

For Mukesh M. Shah & Co.
Chartered Accountants
Firm Registration No. 106625W

Place: Ahmedabad

Date: 14th May, 2015

Partner
[Chandresh S. Shah]
Membership No.: 042132

Etna Biotech S.R.L.
Balance Sheet as at December 31, 2014

Particulars	Note No.	EUR - Thousands		INR - Thousands	
		As at December 31			
		2014	2013	2014	2013
EQUITY AND LIABILITIES:					
Shareholders' Funds:					
Share Capital	1	90	90	6,867	7,419
Reserves and Surplus	2	169	51	12,923	4,235
		259	141	19,790	11,654
Non-Current Liabilities:					
Long Term Provisions	3	15	15	1,145	1,236
Other long term liabilities	4	119	385	9,080	31,736
		134	400	10,225	32,972
Current Liabilities:					
Trade Payables	5	545	16	41,584	1,319
Other Current Liabilities	6	7	10	534	824
Short Term Provisions	7	188	181	14,344	14,920
		740	207	56,462	17,063
Total		1,133	748	86,477	61,689
ASSETS:					
Non-Current Assets:					
Fixed Assets:					
Tangible Assets	8	77	71	5,876	5,854
Intangible Assets		5	-	382	-
		82	71	6,258	5,854
Long Term Loans and Advances	9	367	298	28,030	24,593
		449	369	34,288	30,447
Current Assets:					
Cash and Bank Balances	10	684	379	52,189	31,241
Total		1,133	748	86,477	61,688
Significant Accounting Policies	II				
Notes to the Financial Statements	1 to 19				

As per our report of even date

For Mukesh M. Shah & Co.

Chartered Accountants

Firm Registration Number: 106625W

Chandresh S. Shah

Partner

Membership Number: 042132

Ahmedabad, Dated: May 14, 2015

For and on behalf of the Board

Director

Etna Biotech S.R.L.
Statement of Profit and Loss for the year ended December 31, 2014

Particulars	Note No.	EUR - Thousands		INR - Thousands	
		Year ended December 31			
		2014	2013	2014	2013
REVENUE:					
Revenue from Operations:					
Sale of Services		287	385	23,253	31,736
Other Operating Revenues	11	347	93	28,114	7,666
		634	478	51,367	39,402
Exchange Rate difference due to translation		-	-	-	594
Total Revenue		634	478	51,367	39,996
EXPENSES:					
Employee Benefits Expense	12	332	330	26,899	27,202
Finance Costs	13	2	2	162	165
Depreciation, Amortisation and Impairment expenses		5	3	405	247
Other Expenses	14	177	136	14,341	11,211
Total Expenses		516	471	41,807	38,825
Profit for the year		118	7	9,560	1,171
		EUR		INR	
Basic & Diluted Earning per Equity Share [EPS]	15	131.11	7.78	10,622	1,301.11
Significant Accounting Policies	II				
Notes to the Financial Statements	1 to 19				

As per our report of even date

For Mukesh M. Shah & Co.

Chartered Accountants

Firm Registration Number: 106625W

For and on behalf of the Board

Chandresh S. Shah

Partner

Membership Number: 042132

Ahmedabad, Dated: May 14, 2015

Director

Etna Biotech S.R.L.

I-Company overview:

Etna Biotech S.R.L. is a Research Centre headquartered in Catania, Italy with key competencies in researching and developing vaccines and immunotherapeutic for infectious diseases and other chronic illnesses. Etna Biotech has been acquired in 2008 by Zydus International Private Limited, incorporated in the Republic of Ireland, which is a subsidiary of Cadila Healthcare Limited, India.

II-Significant Accounting Policies:

1 Basis of Accounting:

These financial statements were prepared in accordance with current legislation of Italy. The valuation criteria of financial statements have been prepared based on the principle of prudence and the time period principle on the assumption that the business is a going concern.

2 Reporting Currency Translations:

The Local accounts are maintained in local and functional currency which is "EURO". These accounts have been translated in Indian Rupees [INR] considering the operation of the Company as "Non-integral operations" for holding company. The translation of Financial Statements to INR from "EURO" is performed for assets and liabilities using the exchange rate prevailing on the Balance sheet date and for revenue and expenses using the average exchange rate for the respective period. The gain or loss resulting from such translation is included in "Foreign Currency Translation Reserve" under Reserves and Surplus.

3 Use of Estimates:

The preparation of the financial statements in accordance with accounting practices adopted in Italy requires, the Management to make estimates and assumptions in respect of certain items like provisions for doubtful debts, impairment of fixed assets etc. that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as at the date of the financial statements and reported amounts of revenues and expenses for the reporting period. Liabilities subject to these estimates and assumptions include the residual value of property, plant and equipment. Actual results could differ from these estimates. Any revision to accounting estimates is recognised prospectively in current and future periods.

4 Fixed Assets and Depreciation:

A Tangible Fixed Assets:

- a Tangible assets are recognized at historical cost, meaning by this term, the price paid to third parties for the purchase of property, inclusive of any directly allocable ancillary costs. Any costs incurred after acquisition are recognised as an increase in the carrying value of the element to which they refer, when generate future benefits in terms of production capacity, safety or useful lives.
- b All other costs are recognised to the Statement of Profit and Loss in the period in which they are incurred.
- c Depreciation is calculated in equal amounts.
- d The depreciation rates reflect the estimated useful life of the assets in accordance with tax law.
- e There were no accelerated depreciation.
- f Depreciation begins when the asset is ready for use and it ends when the asset is sold or fully amortized.

5 Revenue Recognition:

- A Revenue and Income from Services are recognised on an accrual basis.
- B Interest income is recognised on time proportionate basis.
- C Revenue in respect of other income is recognised when no significant uncertainty as to its determination or realisation exist.

6 Impairment of Assets:

The Company, at each balance sheet date, assesses whether there is any indication of impairment on any asset. If such indication exists, assets are impaired by comparing carrying amount of each asset to the recoverable amount being higher of the net selling price or value in use. Value in use is determined from the present value of the estimated future cash flow from the continuing use of the assets.

7 Provision for Employee Benefits:

This provision represents the debt accrued in respect of all employees in accordance with law and with current national labour contracts and includes all forms of remuneration that are paid out to employees on an ongoing basis.

8 Accounting for Government Grant:

Government grants are recognised in accordance with the terms of the respective grant on accrual basis considering the status of compliance of prescribed conditions and ascertainment that the grant will be received. Government grants related to revenue are recognised on a systematic and gross basis in the statement of Profit and Loss over the period during which the related costs intended to be compensated are incurred.

9 Accruals and deferrals:

These include items of cost and revenue that extend over two or more years, following accrual basis accounting principle.

10 Income taxes:

The taxes are allocated in accordance with the principle of competence :

- Provisions for taxes paid or to be paid for the period, determined in accordance with the rates and regulations.

Etna Biotech S.R.L.				
Notes to the Financial Statements				
	EUR - Thousands		INR - Thousands	
	As at December 31			
	2014	2013	2014	2013
Note: 1-Share Capital:				
Authorised:				
900 [as at December 31, 2013: 900] Equity Shares of € 100/- each	90	90	6,867	7,419
	90	90	6,867	7,419
Issued, Subscribed and Paid-up:				
900 [as at December 31, 2013: 900] Equity Shares of € 100/- each	90	90	6,867	7,419
Total	90	90	6,867	7,419
A There is no change in the number of shares as at the beginning and end of the year. Number of shares at the end of year	900	900		
B The Company has only equity shares. All equity shares rank pari passu and carry equal rights with respect to voting and dividend. In the event of liquidation of the Company, the equity shareholders shall be entitled to proportionate share of their holding in the assets remained after distribution of all preferential amounts.				
C Equity shares of € 100/- each, fully paid, held by Holding Company, Zydus International Private Limited, a company incorporated in the Republic of Ireland which is a subsidiary company of Cadila Healthcare Limited, the ultimate holding company, a company incorporated in India. Number of Shares % to total share holding	900 100%	900 100%		
Note: 2-Reserves and Surplus:				
Foreign Currency Translation Reserve: [*] Balance as per last Balance Sheet Add/ [Less]: Exchange differences on translation to Indian Rupee			0 (872)	
	0	0	(872)	0
Surplus in Statement of Profit and Loss:				
Balance as per last Balance Sheet	51	44	4,235	3,064
Add: Profit for the year	118	7	9,560	1,171
Balance as at the end of the year	169	51	13,795	4,235
Total	169	51	12,923	4,235
[*] Hitherto, the gain/ loss arising on the translation of the Financial Statements to INR was given effect into Statement of Profit and Loss. However, from the year under report, it is now included in "Foreign Currency Translation Reserve" [FCTR] under Reserves and Surplus. Consequent to this change, profit for the year (on INR conversion only) is lower by INR 872 thousands, with a corresponding effect in "Reserves and Surplus".				
Note :3-Long Term Provisions:				
Other long term provisions	15	15	1,145	1,236
Total	15	15	1,145	1,236
Note :4-Other Long Term Liabilities:				
Others	119	385	9,080	31,736
Total	119	385	9,080	31,736
Note: 5-Trade Payables:				
Trade Payables	545	16	41,584	1,319
Total	545	16	41,584	1,319
Note: 6-Other Current Liabilities:				
Provision for expense Payables to statutory authorities	7	10	534 0	824
Total	7	10	534	824
Note: 7-Short Term Provisions:				
Provision for Employee Benefits	188	181	14,344	14,920
Total	188	181	14,344	14,920

Etna Biotech S.R.L.
Notes to the Financial Statements

Note: 8-Fixed Assets:

	Tangible Assets						Intangible Assets	
	EUR - Thousands			INR - Thousands			Eur K	INR K
	Plant and Equipment	Furniture & Fixtures	Total	Plant and Equipment	Furniture & Fixtures	Total	Technical Knowhow	Technical Knowhow
Tangible Assets:								
Gross Block:								
As at December 31, 2012	4	186	190	279	12,951	13,230	-	-
Additions	-	4	4	-	330	330	-	-
Disposals	-	-	-	-	-	-	-	-
Other adjustments	-	-	-	51	2,381	2,432	-	-
As at December 31, 2013	4	190	194	330	15,662	15,992	-	-
Additions	-	11	11	-	839	839	5	382
Disposals	-	-	-	-	-	0	-	-
Other adjustments	-	-	-	(25)	(1,164)	(1,189)	-	-
As at December 31, 2014	4	201	205	305	15,337	15,642	5	382
Depreciation and Impairment:								
As at December 31, 2012	1	119	120	70	8,286	8,356	-	-
Charge for the year	-	3	3	-	247	247	-	-
Disposals	-	-	-	-	-	-	-	-
Other adjustments	-	-	-	12	1,523	1,535	-	-
As at December 31, 2013	1	122	123	82	10,056	10,138	-	-
Charge for the year	-	5	5	-	405	405	-	-
Disposals	-	-	-	-	-	-	-	-
Other adjustments	-	-	-	(6)	(771)	(777)	-	-
As at December 31, 2014	1	127	128	76	9,690	9,766	-	-
Net Block:								
As at December 31, 2013	3	68	71	248	5,606	5,854	-	-
As at December 31, 2014	3	74	77	229	5,647	5,876	5	382

Note: Other adjustments include adjustments on account of exchange rate translation differences.

	EUR - Thousands		INR - Thousands	
	As at December 31			
	2014	2013	2014	2013

Note: 9-Long Term Loans and Advances:

[Unsecured - Considered good]				
Capital Advances [Eur 367 as at Dec 31, 2014 and Dec 31, 2013]	0	0	28	30
Others: Considered good	1	1	76	82
Balances with Revenue Authorities	366	296	27,926	24,399
	367	297	28,030	24,511
Advances recoverable in cash or kind or for value to be received	-	1	-	82
Total	367	298	28,030	24,593

Note: 10-Cash and Bank Balances:

Balances with Banks	684	379	52,189	31,241
Total	684	379	52,189	31,241

Etna Biotech S.R.L.					
Notes to the Financial Statements					
		EUR - Thousands		INR - Thousands	
		Year ended December 31			
		2014	2013	2014	2013
Note: 11-Other Operating Revenue:					
Government Grants [Refer Note : 18]		347	93	28,114	7,666
Total		347	93	28,114	7,666
Note: 12-Employee Benefits Expense:					
Salaries and wages		235	233	19,040	19,206
Contribution to provident and other funds		90	90	7,292	7,419
Staff welfare expenses		7	7	567	577
Total		332	330	26,899	27,202
Note: 13-Finance Cost:					
Bank commission & charges		2	2	162	165
Total		2	2	162	165
Note: 14-Other Expenses:					
Rent		37	37	2,998	3,050
Research Materials		41	32	3,322	2,638
Traveling Expenses		5	3	405	247
Legal and Professional Fees		8	11	648	907
Miscellaneous expenses		86	53	6,968	4,369
Total		177	136	14,341	11,211
Above expenses includes Research related expenses as follows:					
Research Materials		41	32	3,322	2,638
Note: 15-Calculation of Earnings per Equity Share [EPS]:					
The numerators and denominators used to calculate the basic and diluted EPS are as follows:					
A Profit attributable to Shareholders		118	7	9,560	1,171
B Basic & weighted average number of Equity shares outstanding during year		900	900	900	900
		EUR		INR	
C Nominal value of equity share		100	100		
D Basic & Diluted EPS		131.11	7.78	10,622.22	1,301.11
Note: 16-Related Party Transactions:					
A Name of the related parties and nature of the related party relationship:					
a Holding Company:		Zydus International Private Limited			
b Ultimate Holding Company:		Cadila Healthcare Limited			
c Fellow Subsidiary Companies:					
Dialforhealth India Limited		Zydus Healthcare (USA) LLC [USA]			
Dialforhealth Unity Limited		Zydus Noveltech Inc. [USA]			
Dialforhealth Greencross Limited		Hercon Pharmaceuticals LLC [USA]			
German Remedies Limited		Script Management Services (Pty) Ltd [South Africa]			
Liva Pharmaceuticals Limited		Zydus Healthcare S.A. (Pty) Ltd [South Africa]			
Zydus Wellness Limited		Simayla Pharmaceuticals (Pty) Ltd [South Africa]			
M/s. Zydus Wellness-Sikkim, a Partnership Firm		Zydus Nikkho Farmaceutica Ltda. [Brazil]			
Zydus Technologies Limited		Zydus Pharma Japan Co. Ltd. [Japan]			
Biochem Pharmaceutical Industries Limited		Laboratorios Combix S.L. [Spain]			
Zydus BSV Pharma Private Limited		Zydus Pharmaceuticals Mexico SA De CV [Mexico]			
M/s. Zydus Healthcare, a Partnership Firm		Zydus Pharmaceuticals Mexico Services Company SA De C.V.[Mexico]			
Zydus Lanka (Private) Limited [Sri Lanka]		Z AHL B.V. [the Netherlands]			
Zydus Netherlands B.V. [the Netherlands]		Z AHL Europe B.V. [the Netherlands]			
Zydus France, SAS [France]		Bremer Pharma GmbH [Germany]			
Zydus Healthcare Philippines Inc [Philippines]		Zydus Worldwide DMCC [Dubai]			
Zydus Pharmaceuticals (USA) Inc. [USA]		Zydus Discovery DMCC [Dubai]			
Nesher Pharmaceuticals (USA) LLC [USA]					
d Directors :					
Mr. Reinhard Glueck		Mr. David Robert Blanksby		Mr. Pradip Solanki	

Etna Biotech S.R.L.
Notes to the Financial Statements

Note: 16-Related Party Transactions - Continued:

B Transactions with related parties:

The following transactions were carried out with the related parties in the ordinary course of business.

a Details relating to parties referred to in items 16 – A – [b]

	Value of Transactions			
	EUR - Thousands		INR - Thousands	
	Year ended December 31			
	2014	2013	2014	2013
Sales				
Services:				
Cadila Healthcare Limited	287	385	23,253	31,736

b There are no transactions with the parties referred to in item no. 16 - A [a, c and d]

Note: 17-Segment Information:

There is only one segment namely "Pharma Research".

Note: 18

The Company has been awarded grants for two R & D projects by the European Union Authorities and for one project by Sicily Region Authorities. The Company has right to receive Grant from the Authorities and has obligation to carry out R&D activities on the said three projects and incur expenses for the projects. As on 31st December, 2014, the Company is eligible to receive the maximum grant of Eur 1677 K on the said three projects, subject to fulfillment of the conditions attached to the Grant.

Note: 19

Previous year's figures have been regrouped/ reclassified wherever necessary to correspond with the current year's classifications/ disclosures.

Signatures to Significant Accounting Policies and Notes 1 to 19 to the Financial Statements

As per our report of even date

For Mukesh M. Shah & Co.

Chartered Accountants

Firm Registration Number: 106625W

Chandresh S. Shah

Partner

Membership Number: 042132

Ahmedabad, Dated: May 14, 2015

For and on behalf of the Board

Director