

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF ZYDUS NETHERLANDS B.V.,

We have audited the accompanying financial statements of **ZYDUS NETHERLANDS B.V.**, ("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. the Netherlands. 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 the Netherlands:

- (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 loss 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 the Netherlands. The accounts have been submitted to us for our review and have been appropriately verified and reviewed with 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 the Netherlands.

- (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

Ahmedabad

Date: 14th May, 2015

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

Zydus Netherlands B.V.
Balance Sheet as at December 31, 2014

Particulars	Note No.	Euro-Thousands		INR-Thousands	
		As at December 31			
		2014	2013	2014	2013
EQUITY AND LIABILITIES:					
Shareholders' Funds:					
Share Capital	1	49,602	17,332	3,784,633	1,428,677
Reserves and Surplus	2	(8,324)	(8,170)	(635,123)	(673,453)
		41,278	9,162	3,149,510	755,224
Non-Current Liabilities:					
Long Term Borrowings	3	3,765	24,782	287,270	2,042,780
Current Liabilities:					
Other Current Liabilities	4	12,877	11,602	982,516	956,353
Total		57,920	45,546	4,419,296	3,754,357
ASSETS:					
Non-Current Assets:					
Non-Current Investments	5	57,890	45,490	4,417,007	3,749,741
Current Assets:					
Cash and Bank Balances	6	30	56	2,289	4,616
Total		57,920	45,546	4,419,296	3,754,357
Significant Accounting Policies	II				
Notes to the Financial Statements	1 to 13				

Statement of Profit and Loss for the year ended December 31, 2014

Particulars	Note No.	Euro-Thousands		INR-Thousands	
		Year ended December 31			
		2014	2013	2014	2013
REVENUE:					
Revenue from Operations:					
Other Operating Revenues	7	-	154	-	12,694
Total Revenue		-	154	-	12,694
EXPENSES:					
Finance Costs	8	109	477	8,831	39,319
Other Expenses	9	45	28	3,646	102,390
Total Expenses		154	505	12,477	141,709
Loss for the year		(154)	(351)	(12,477)	(129,015)
Basic & Diluted Earning per Share [EPS]	10	(0.41)	(5.06)	(33.18)	(1,858.92)
Significant Accounting Policies	II				
Notes to the Financial Statements	1 to 13				

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

Zydus Netherlands B.V.

I-Company overview:

Zydus Netherlands B.V. [the Company] was incorporated on January 18, 2007. The Company's registered office is situated at Claude Debussylaan 18, 1082 MD Amsterdam, the Netherlands. Its principal activities are to act as a holding and finance company.

II-Significant Accounting Policies:

1 Basis of Accounting:

The financial statements have been prepared in accordance with principles of accounting generally accepted in the Netherlands and are in compliance with the provisions of the Netherlands Civil Code Book 2, Title 9. The Company follows the accrual method of accounting in preparing its financial statements. Under the accrual method, the effects of transactions and other events on the assets, liabilities and income are recognised and reported in the year to which they relate rather than when cash is paid or received. However dividends from group entities are recorded as income when received.

2 Reporting Currency Translation:

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 Foreign Currency [Currency other than company's functional] currency Transactions:

A The transactions in foreign currencies are stated at the rates of exchange prevailing on the date of transaction.

B The net gain or loss on account of exchange differences either on settlement or on translation are recognised in the statement of Profit and Loss.

C Monetary assets and liabilities denominated in foreign currencies are translated into Euros at the rates of exchange prevailing at the accounting date.

4 Investments:

Long term and strategic investment are stated at cost, less any diminution in the value other than temporary.

5 Other assets and liabilities:

All other items are stated at nominal value except where a different basis of valuation has been indicated in the financial statements.

6 Taxation:

A Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect to previous years.

B Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised to the extent that it is probable that future tax profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

7 Revenue Recognition:

Interest income is recognised on time proportionate method.

Zydus Netherlands B.V.
Notes to the Financial Statements

	Euro-Thousands		INR-Thousands					
	As at December 31							
	2014	2013	2014	2013				
Note: 1-Share Capital:								
Authorised:								
496,023 [as at December 31, 2013: 224,100] Ordinary Shares of € 100/- each	49,602	22,410	3,784,633	1,847,256				
	49,602	22,410	3,784,633	1,847,256				
Issued, Subscribed and Paid-up:								
496,023 [as at December 31, 2013: 173,320] Ordinary Shares of € 100/- each, fully paid-up	49,602	17,332	3,784,633	1,428,677				
Total	49,602	17,332	3,784,633	1,428,677				
A Number of shares at the beginning and at the end of the year	173,320	44,820						
Add: Shares issued during the year	322,703	128,500						
Number of shares at the end of the year	496,023	173,320						
B The Company has only ordinary shares. All ordinary shares rank pari passu and carry equal rights with respect to voting and dividend. In the event of liquidation of the Company, the ordinary shareholders shall be entitled to proportionate share of their holding in the assets remained after distribution of all preferential amounts.								
C Ordinary 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	496,023	44,820						
% to total share holding	100%	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			50,807					
	-	-	50,807	-				
Surplus in statement of Profit and Loss:								
Balance as per last Balance Sheet	(8,170)	(7,819)	(673,453)	(544,438)				
Add: Loss for the year	(154)	(351)	(12,477)	(129,015)				
Balance as at the end of the year	(8,324)	(8,170)	(685,930)	(673,453)				
Total	(8,324)	(8,170)	(635,123)	(673,453)				
[*] 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, loss for the year (on INR conversion only) is higher by INR 50,807 thousands, with a corresponding effect in "Reserves and Surplus".								
Note: 3-Long Term Borrowings:								
	Euro-Thousands		INR-Thousands		Euro-Thousands		INR-Thousands	
	Non-current portion				Current Maturities			
	As at December 31				As at December 31			
	2014	2013	2014	2013	2014	2013	2014	2013
From Related Parties [Unsecured] [*]	3,765	24,782	287,270	2,042,780	12,099	10,952	923,154	902,773
Amount disclosed under the head								
Other Current Liabilities [Note-4]	-	-	-	-	(12,099)	(10,952)	(923,154)	(902,773)
Total	3,765	24,782	287,270	2,042,780	-	-	-	-
[*] Details of Loans and Advances from Related Parties [Refer Note-11 for relationship] are as under:								
a Zydus International Private Limited [ZIPL]- Holding Company								
i Convertible Loan: No interest will be payable on the amount of Convertible Loan, which is converted into capital of Zydus Netherlands B.V. [ZNBV]. ZIPL will have an option at the sole discretion for converting a part or the full amount of Convertible Loan into share capital of ZNBV at par value, at any time or from time to time in one or more tranches. The term loan will be for a period of five years from the disbursement date.								
<u>Disbursement Date</u>	<u>EUR K</u>							
9-Oct-07 [*]	9,393							
14-Dec-09	800							
26-Jul-10	1,545							
5-Jan-11	274							
25-Jul-11	1,391							
13-Feb-12	231							
8-Aug-12	1,567							
4-Feb-13	301							
[*] The loan agreement dated October 9, 2007 has been amended on October 1, 2012 and its period has been extended upto October 8, 2015.								
ii Interest Bearing Loan: 6 Months EURIBOR plus 650 bps p.a. The loan has no fixed repayment terms. The loan will be repaid in such installments as decided at the sole discretion of ZIPL, depending on cash flow position of ZNBV and fund requirements of ZIPL, but not later for five years from the first disbursement.								
5-Feb-10	361							

Zydus Netherlands B.V.
Notes to the Financial Statements

	Euro-Thousands		INR-Thousands	
	As at December 31			
	2014	2013	2014	2013
Note: 4-Other Current Liabilities:				
Current Maturities of Long Term Debt [Refer Note-3]	12,099	10,952	923,154	902,773
Interest accrued but not due on borrowings	752	644	57,378	53,085
Others				
Provision for Expenses	26	6	1,984	495
Total	12,877	11,602	982,516	956,353
Note: 5-Non-Current Investments:				
	Nos. [*]		Face Value [**]	
Long Term Investments [Valued at cost]:				
Trade Investments:				
Investments in Equity Instruments [*]		45,490	4,417,007	3,749,741
Total		45,490	4,417,007	3,749,741
Details of Trade Investments [Valued at cost]:				
Unquoted shares in subsidiary companies:				
In fully paid-up equity shares of:				
Zydus Nikkho Farmaceutica Ltda [Formerly known as Zydus Healthcare Brasil Ltda.]	118,756,854 [87,198,304]	32,014	3,213,298	2,638,914
Laboratorios Combix S.L.	7,453,006 [7,448,806]	13,476	1,203,709	1,110,827
Total		45,490	4,417,007	3,749,741
Explanations:				
a In "Nos. [*]" figures of Previous year are same unless stated in [].				
b In "Face Value [**]", figures are in Respective currency.				
Note: 6-Cash and Bank Balance:				
Balance with Bank	30	56	2,289	4,616
Total	30	56	2,289	4,616
	Euro-Thousands		INR-Thousands	
	Year ended December 31			
	2014	2013	2014	2013
Note: 7-Other Operating Revenues:				
Other Operating Revenues:				
Net Gain on foreign currency transactions and translation	-	154	-	12,694
Total	-	154	-	12,694
Note: 8-Finance Cost:				
Interest expense [*]	108	477	8,750	39,319
Bank commission & charges	1	-	81	-
Total	109	477	8,831	39,319
[*] The break up of interest expense in to major heads is given below:				
On term loans	-	344	-	28,356
Others	108	133	8,750	10,963
	108	477	8,750	39,319
Note: 9-Other Expenses:				
Legal and Professional Fees	45	27	3,646	2,226
Exchange Rate difference due to translation [Refer Note - 2 *]			-	100,082
Net Loss on foreign currency transactions and translation	-	1	-	82
Total	45	28	3,646	102,390

Zydus Netherlands B.V.
Notes to the Financial Statements

	Euro-Thousands		INR-Thousands	
	Year ended December 31			
	2014	2013	2014	2013

Note: 10-Calculation of Earnings per Share [EPS]:

The numerators and denominators used to calculate the basic and diluted EPS are as follows:

A Loss attributable to Shareholders	(154)	(351)	(12,477)	(129,015)
B Basic and weighted average number of shares outstanding during the year	376,070	69,403	376,070	69,403
C Nominal value of share	100	100	100	100
	Euro		INR	
D Basic & Diluted EPS	(0.41)	(5.06)	(33.18)	(1,858.92)

Note: 11-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, a company incorporated in India

c Subsidiary Companies:

Zydus Nikkho Farmaceutica Ltda. [Brazil]

Laboratorios Combix S.L. [Spain]

d Fellow Subsidiaries:

Dialforhealth India Limited

Dialforhealth Unity Limited

Dialforhealth Greencross Limited

German Remedies Limited

Zydus Wellness Limited

Liva Pharmaceuticals Limited

Zydus Technologies Limited

Biochem Pharmaceutical Industries Limited

M/s. Zydus Healthcare, a Partnership Firm

M/s. Zydus Wellness-Sikkim, a Partnership Firm

Zydus Lanka (Private) Limited [Sri Lanka]

Zydus Healthcare S.A. (Pty) Ltd [South Africa]

Zydus Healthcare (USA) LLC [USA]

Zydus Pharmaceuticals (USA) Inc. [USA]

Nesher Pharmaceuticals (USA) LLC [USA]

Zydus France, SAS [France]

Zydus Pharma Japan Co. Ltd. [Japan]

Etna Biotech S.R.L. [Italy]

Zydus Pharmaceuticals Mexico SA De C.V. [Mexico]

Zydus Pharmaceuticals Mexico Services Company

SA De C.V.[Mexico]

Zydus Noveltech Inc. [USA]

Simayla Pharmaceuticals (Pty) Ltd [South Africa]

Script Management Services (Pty) Ltd [South Africa]

Hercon Pharmaceuticals LLC [USA]

ZAHL B.V. [the Netherlands]

ZAHL Europe B.V. [the Netherlands]

Bremer Pharma GmbH [Germany]

Zydus Healthcare Philippines Inc [Philippines]

Zydus Worldwide DMCC [Dubai]

Zydus Discovery DMCC [Dubai]

e Directors:

Mrs K. Hejlova

Mr. A. Van Zandvoort [ceased to be director w.e.f August 1st, 2014]

Mr.Sharvil Patel [ceased to be director w.e.f February 20th, 2015]

Mr. D. R Blanksby

Mr. Pankaj Patel [ceased to be director w.e.f March 25th, 2015]

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 11 A [a & c]

Nature of Transactions

	Euro - Thousands		INR-Thousands	
	Year ended			
	2014	2013	2014	2013
1 Finance:				
Inter Corporate Loans Received:				
Zydus International Private Limited	-	18,612	-	1,534,187
Inter Corporate Loans Repaid:				
Zydus International Private Limited	19,870		1,516,081	
Interest paid on Loans:				
Zydus International Private Limited	108	133	8,750	10,963
2 Investments:				
Purchases/ Subscription to Share Capital of:				
Laboratorios Combix S.L.	2,300	1,300	175,490	107,159
Zydus Nikkho Farmaceutica Ltda. [Brazil]	10,100	9,650	770,630	795,450
Sales/ Subscription to Share Capital from:				
Zydus International Private Limited	32,270	10,950	2,462,201	902,609
3 Outstanding:				
Payable:				
Zydus International Private Limited	16,616	36,378	1,267,801	2,998,639

b There are no transactions with the parties referred to in item no. 11 A [b, d & e]

Zydus Netherlands B.V.
Notes to the Financial Statements

Note: 12-Segment Information:

A Primary Business Segment-By Geographical Market:

	Value of Transactions [Euro Thousands]				Value of Transactions [INR Thousands]			
	Revenue by Geographical		Carrying amount of segment		Revenue by Geographical		Carrying amount of segment	
	Market		assets		Market		assets	
	Year ended December 31				Year ended December 31			
	2014	2013	2014	2013	2014	2013	2014	2013
a European Countries	-	154	15,806	13,532	-	12,694	1,205,998	1,115,443
b Rest of the world	-	-	42,114	32,014	-	-	3,213,298	2,638,914
c Total	-	154	57,920	45,546	-	12,694	4,419,296	3,754,357

B Secondary Business Segment: There is only one segment namely investments activities.

Note: 13 Previous year's figures have been regrouped/ reclassified wherever necessary to correspond with the current year's classifications/ disclosure.

Signatures to Significant Accounting Policies and Notes 1 to 13 to the Financial Statements

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