

Report of the Statutory Auditors

To the General Meeting of
Biocon SA, Delémont
Lausanne, 22 June 2016
mg/4.3

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of Biocon SA, which comprise the balance sheet, income statement and notes, for the year ended 31 March 2016.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amount and disclosures in the financial statements. The procedures selected depend on auditor's judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system 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 system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, 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 for the year ended 31 March 2016 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (articles 728 CO) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

Pierre-Alan Coquoz

Licensed audit expert

(Auditor in charge)

Michael Ackermann

Licensed audit expert

Enclosures

- Financial statements (balance sheet, income statement and notes)
- Proposed appropriation of retained earnings

BALANCE SHEET

	31.03.2016 CHF	31.03.2015 CHF
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	2,336,316	725,121
Short term deposits	-	19,451,442
Trade receivables	14,637,069	885,042
Third parties	13,778,219	213,966
Group companies	858,850	865,590
Bad debt provision	-	-194,515
Other current receivables	362	95,979
Accrued income and prepaid expenses	4,864,603	661,074
TOTAL CURRENT ASSETS	21,838,349	21,818,658
CAPITAL ASSETS		
Financial assets	-	1,458,860
Long term loans and advance	-	1,458,860
Shareholdings	75,032,071	75,471,698
Investment in Biocon SDN.BHD (equity share capital)	-	5,835,441
Investment in Biocon SDN.BHD (convertible preferred shares)	75,032,071	69,636,258
Intangible fixed assets	15,743,252	20,224,368
Marketing rights	30,930,055	31,172,797
Accumulated depreciations	-30,930,001	-28,233,502
Intangibles under development	15,743,198	17,285,073
TOTAL CAPITAL ASSETS	90,775,323	97,154,926
TOTAL ASSETS	112,613,672	118,973,584
LIABILITIES & EQUITY		
CURRENT BORROWED CAPITAL		
Trade creditors	20,097,391	6,571,795
Third parties	345,070	1,326,966
Group companies	19,752,321	5,244,829
Other current liabilities	1,800,969	974,488
Accrued expenses	3,411,309	2,496,972
Provisions for direct taxes	1,569,932	11,671
Accrued liabilities and deferred income	1,841,377	2,485,301
Deferred income	30,880,000	70,504,071
TOTAL CURRENT BORROWED CAPITAL	56,189,670	80,547,325
LONG-TERM BORROWED CAPITAL		
Conversion differences	1,266,575	1,698,524
TOTAL LONG-TERM BORROWING CAPITAL		
SHAREHOLDER'S EQUITY		
Capital	100,000	100,000
Statutory retained earnings	32,591	32,591
Retained earnings	36,595,144	38,477,441
Net result (- Loss)	18,429,693	-1,882,298
TOTAL SHAREHOLDER'S EQUITY	56,424,002	38,426,259
TOTAL LIABILITIES & EQUITY	112,613,672	118,973,584

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PROFIT AND LOSS ACCOUNT

	2015-2016 CHF	2014-2015 CHF
Net proceeds from sales of services	29,437,094	8,548,300
Recharge of development expenses	4,277,366	20,218,099
TOTAL OPERATING REVENUE	33,714,460	28,766,400
Development charges	-30,328,073	-25,389,984
Amortisation of intangible assets	-2,937,507	-5,695,025
Administration expenses	-125,665	-119,171
TOTAL OTHER OPERATING EXPENSES	-33,391,246	-31,204,179
OPERATING RESULT	323,214	-2,437,780
Financial expenses	-192,280	-172,220
Interest paid, bank charges	-157,950	-6,677
Exchange loss	-34,330	-165,543
Financial income	316,669	924,706
Creditor interests	310,847	776,720
Exchange gain	5,821	147,986
Exceptional income	37,219,476	-
Exceptional expense	-17,656,399	-185,854
RESULT BEFORE TAXES	20,010,679	-1,871,147
Taxes	-1,580,986	-11,151
NET RESULT/-LOSS	18,429,693	-1,882,298

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NOTES

Accounting and valuation principles

General

Accounting principles of the company comply with the Swiss law. The accounting is held in USD (Functional currency). At the closing date, balance sheet and income statement figures are converted in CHF.

Shareholdings

Investments in subsidiaries are recognized in the balance sheet at the purchase value less necessary impairment. In March 2016 Biocon SA sold its investment (equity shares) in Biocon Sdn.Bhd to Biocon Biologic Ltd. The sale price is determined in an independent valuation report using the DCF Method that is showing a correlation of 97.5% between the value for shareholder and the invested share capital at book value (par value in MYR). As result of the conversion of this transaction from MYR into USD, an exchange loss of USD 1'336'589 (CHF 1'299'165) was recognized and disclosed under exceptional items.

Biocon SA sold to Biocon Biologic Ltd a total of 2'057'197 preferred shares at the book value of USD 6'336'600.

Intangibles fixed assets

Intangible assets are recognized at the purchase value. Marketing rights are amortized over 5 years (Straight line depreciation).

Impairment of T1H

In March 2010, Biocon SA, a wholly owned subsidiary of the Company, acquired marketing rights of T1H product for US and Canada region ("Territory") from M/s CIMAB, Cuba.

Pursuant to ongoing efforts to license such product to potential partners in the USA, Biocon SA was informed of the need to obtain prior authorization from the Office of Foreign Assets Control, USA ("OFAC"). The US regulations restrict any U.S. company or a subsidiary of a U.S. company from engaging in any transaction in which a Cuban entity has at any time since July 1963 had any interest whatsoever, whether direct or indirect without prior authorization from OFAC. Biocon SA evaluated options to obtain waiver from this requirement. However, during the year ended March 31, 2016, the outcome was not favourable. Consequent to such developments and after evaluating the requirements of OFAC and related timelines, management concluded that the same has now created an uncertainty to license this product for development and commercialization in the Territory.

Hence, during the year ended March 31, 2016, Biocon SA recorded an impairment of the carrying value of the aforesaid intangible asset amounting to CHF 16,356,799. The same has been recorded as an exceptional item in the consolidated financial results for the year ended March 31, 2016. The Company holds marketing rights in other territories including Europe where these restrictions do not apply and continues to develop the molecule for such territories.

Deferred income

In March 2016, Biocon SA entered into an agreement with Lab PISA, Mexico ("PISA"), granting a right to PISA to become Biocon SA's exclusive Co-Development partner and Manufacturer for biosimilar rh-insulin ("Products") in United States of America ("the Territory"). Consequent to the above agreement with PISA which changes the nature of Biocon's future obligations on the rh-insulin program, the balance of deferred revenues of CHF 37 million relating to this program has been recognized as income in the profit and loss for the year ended March 31, 2016 and is disclosed under exceptional items.

Information relating items of the balance sheet and profit and loss account

	31.03.2016 CHF	31.03.2015 CHF
Essential participation		
Biocon SDN.BHD, Kuala Lumpur (Malaysia)		
Equity share capital	MYR 63'373'840	MYR 63'373'840
Number of ordinary shares owned (MYR 10 each)	-	1,837,384
Percentage of ownership	0.00%	28.99%

Biocon SA is responsible, through Biocon SDN.BHD, for creating sufficient manufacturing capacity to cater to the requirements for the Biosimilar insulin analogs in the countries covered by the agreement with Mylan GmbH. Biocon Sdn Bhd is setting up a biopharmaceutical facility in Johor, Malaysia. Biocon SA is financing this construction through the subscription of convertible preferred shares without voting rights issued by Biocon SDN.BHD. At the closing date, the investment of Biocon SA in preferred shares is MYR 304,161,972. During the year, Biocon SA invested MYR 48,208,295 towards preferred shares and sold preferred shares amounting to MYR 20,571,955 (on par).

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	31.03.2016 CHF	31.03.2015 CHF
Exceptional income		
Release of provision for bad debts	194,400	-
Release of deferred revenue RH-Insulin program	37,025,076	-
	37,219,476	-
Exceptional expenses		
Constitution of provision for bad debts	-	-185,856
Impairment T1H	-16,356,799	-
Exchange loss on sale of Biocon SDN.BHD shares	-1,299,165	-
Miscellaneous	-436	-
	-17,656,400	-185,856
Other information required by the law		
Conversion of financial statements in foreign currency:		
Exchange rates used for conversion in functional currency:		
1 EUR Closing rate	1.1381	1.0735
1 GBP Closing rate	1.4360	1.4819
1 CHF Closing rate	1.0398	1.0282
Exchange rates used for the conversion in CHF:		
Balance sheet Closing rate 1 USD	CHF 0.9650	CHF 0.9726
Equity	Historical	Historical
Profit and loss account Average annual rate 1 USD	CHF 0.9720	CHF 0.9293

Deviation from the presentation principle

The financial statements of the year 2015-16 have been prepared and presented in accordance with the new commercial accounting rules of the Swiss Code of obligations (Title 32). The previous year's figures have been restated accordingly.

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PROPOSED APPROPRIATION OF RETAINED EARNINGS

	31.03.2016	31.03.2015
	CHF	CHF
The Board of Directors proposes the following appropriation of the retained earnings:		
Profit carried forward	36,595,143	38,477,441
Net result/(-Loss)	18,429,693	-1,882,298
Retained earnings	55,024,836	36,595,143
CARRY-FORWARD TO NEW ACCOUNT	55,024,836	36,595,143

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