



Financial statements as of March 31, 2018 and management report

TRANSLATION – AUDIT REPORT

Glenmark Arzneimittel GmbH
Gröbenzell, Germany

KPMG AG Wirtschaftsprüfungsgesellschaft

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1 Audit engagement

At the shareholders' meeting of

Glenmark Arzneimittel GmbH, Gröbenzell,
– hereinafter also referred to as “Company” –

has engaged us to audit the financial statements for the year ended March 31, 2018, together with the accounting records, and the management report.

This audit report has been prepared in accordance with the principles of Audit Standard 450 promulgated by the German Institute of Public Auditors [IDW].

We confirm that we have conducted our audit in compliance with the applicable independence regulations in accordance with Section 321 (4a) of the German Commercial Code [HGB].

The terms governing this engagement are set out in the General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften [German Public Auditors and Public Audit Firms] as of January 1, 2017, which are attached to this report as Appendix 2. Our liability is governed by Clause 9 of the General Engagement Terms. Our liability towards third parties is defined under Clauses 1 (2) and 9 of the General Engagement Terms.

2 Evaluation of management's assessment of the Company's position

In our opinion, the following key statements in the management report are noteworthy:

- The key performance indicators for corporate management are revenue and EBIT. At EUR 30.3 million (PY: EUR 28.2 million), revenue is 7.63 % above the prior year's level; at EUR 1.76 million, EBIT rose by EUR 0.66 million (PY: EUR 1.10 million).
- Total assets increased by EUR 18.9 million in the year under review, to EUR 61.0 million. This increase is mainly due to a business loan to a group company. In addition, cash and cash equivalents increased. On the liabilities side, it was mainly the provisions related to the discounts awarded as part of the tendering process for health insurance funds that increased, by EUR 7.1 million to EUR 36.3 million.
- The Company finances itself predominantly from cash flows from operating activities. No external financing takes place, therefore no credit lines have been established with banks.
- The Company sees opportunities in achieving further growth in the market with the existing competitive cost structure. The Company is also planning to explore new therapeutic target groups and acquire new customers by expanding its product portfolio.
- The Company sees risks concerning supply, price and cost. The supply risk relates to the reliability of suppliers. As the Company continuously monitors its suppliers, this risk is considered medium. The price risk relates mainly to price changes as a result of statutory requirements or new providers entering the market. This risk is considered medium. Cost risks relate mainly to procurement costs from external and group suppliers. This risk is considered low.
- For the 2018/19 financial year, the Company forecasts a slight rise in revenue of approx. 10 % and an unchanged EBIT.

As a result of our audit, we found that the management report presents fairly, as a whole, the position of the Company and accurately presents the opportunities and risks of future development.

3 Performance of the audit

3.1 Scope of the audit

We have audited the financial statements of Glenmark Arzneimittel GmbH, including the accounting records, and the management report, for the financial year ended March 31, 2018. The management of the Company is responsible for

- the maintenance of the books and records,
- the preparation of the financial statements and the management report in accordance with the regulations of German commercial law, and also for
- the explanations and evidence provided to us.

Our responsibility is to express an opinion on these financial statements and the management report based on our audit.

An audit of financial statements only covers compliance with other legal regulations to the extent that these other legal regulations can be expected to have an impact on the financial statements or the management report.

Pursuant to Section 317 (4a) HGB, an audit is not intended to extend to whether the Company's ability to continue as a going concern or the effectiveness and efficiency of management can be assured.

3.2 Nature and scope of audit procedures

We conducted our audit of the financial statements in accordance with Section 317 HGB and the generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors [IDW]. The objective of our risk-oriented audit approach is to ensure that the statements made in the financial statements and management report of Glenmark Arzneimittel GmbH provide a reliable basis for decisions taken by users of these financial statements.

The main features underlying our audit approach are as follows:

Phase I: Development of an audit strategy focused on business risks

Obtaining an understanding of the Company's business as well as knowledge of the accounting systems and the internal control system

Establishing audit focus areas based on our risk assessment:

- Audit of the process of preparing financial statements
- Revenue recognition and cut-off
- Existence and valuation of inventories
- Measurement of discount provisions

Establishing the audit strategy and timeline for the audit

Selecting the audit team and planning the deployment of specialists

Phase II: Selection and implementation of control-based audit procedures

Selection of control-based audit procedures based on risk assessments and knowledge of business processes and systems

Assessment of the design and effectiveness of selected accounting-related controls

Phase III: Tests of details and analytical review of items in the financial statements

Performance of analytical reviews of items in the financial statements

Tests of details on a sample basis and assessment of individual items with a view to the accounting options and judgments exercised, e. g.:

- Obtaining confirmations from lawyers and tax advisors
- Obtaining confirmations from banks
- Obtaining confirmations of balances for the trade receivables and payables
- Assessment of the recognition of the sales revenue on an accrual basis
- Expression of an opinion on the calculation of provisions for discounts
- Critical review of invoice receipts in April 2018 and assessment of recognition of these expenses in the period incurred to ensure completeness of liabilities.

Review of disclosures in the notes and assessment of the management report

Phase IV: Overall assessment of audit results and reporting

Formation of the audit opinion on the basis of the overall assessment of audit results

Reporting in the audit report and the auditor's report

Detailed oral presentation of audit results to management

We performed our audit (with interruptions) in the months of March to July 2018 until July 5, 2018.

All explanations and evidence requested by us were provided. Management confirmed in writing that the accounting records, financial statements and management report are complete.

4 Findings concerning accounting records and financial reporting

4.1 Accounting records and related documents

The Company's accounting records have been properly kept and maintained. The accounting records and related documents are properly authorized, sufficiently explained and filed in an orderly manner. Based on our findings, the accounting records and related documents comply with German statutory requirements.

Based on our audit, we found that the Company's organizational and technical measures taken to ensure security of the accounting-relevant data and IT systems were appropriate.

4.2 Financial statements

The financial statements as of March 31, 2018, presented to us for audit, were properly derived from the Company's accounting records and related documents. The opening balance sheet figures were properly carried forward from the prior year's financial statements. The statutory regulations concerning recognition, disclosure and valuation were observed.

The balance sheet and the income statement were prepared in accordance with the provisions of German commercial law governing the accounting of limited liability companies, including generally accepted accounting principles. The notes to the financial statements include all legally required information.

The Company has properly availed itself of some of the size exemptions allowed under Section 288 (2) HGB.

4.3 Management report

The management report prepared by management complies with statutory regulations. The management report is consistent with the financial statements and our audit findings. It presents fairly, as a whole, the position of the Company. As a result of our audit, we conclude that the management report suitably presents the opportunities and risks of future development.

5 Opinion on the overall presentation of the financial statements

5.1 Explanatory notes concerning the overall presentation

The general accounting policies are described in the notes to the financial statements (see Appendix 1.3).

The exercise of accounting and valuation options as well as accounting judgments for the following financial statement items has a material effect on the Company's net assets, financial position and results of operations:

Distribution licenses

In the 2014/15 financial year, the Company acquired two licenses for the sale of the active ingredients Aripiprazole and Pregabalin in Germany. Along with the direct license fees to the manufacturers, the fees for the approval of the medicines by the German Federal Institute for Drugs and Medical Devices [BfArM] were also recognized as incidental acquisition costs. In total, the historical cost for these two licenses amounted to KEUR 432 and was recognized in fixed assets. The licenses are amortized over the term of the contract; ten years for Aripiprazole and five years for Pregabalin.

Deferred tax assets

The option of recognizing deferred tax assets provided under Section 274a (1) sentence 2 HGB was utilized in relation to a sum of KEUR 3.

Provision for discounts

The Company distributes its products via wholesalers who supply pharmacies. Revenue is recognized, according to the invoice amount, when the deliveries are sent to the wholesalers. Pharmaceutical discount agreements have been concluded with various health insurance funds, which provide that certain medicines of the Company are to be exclusively or partially exclusively supplied to customers of the health insurance fund concerned (generally relating to active ingredients). In return, the Company grants a discount on the selling price that is used to form the basis for the revenue recognition. In general, a considerable period of time passes between distribution to the wholesaler and delivery to the end customer.

At year end, the Company calculates a provision for discounts to be granted using the volumes delivered to the wholesalers and the average discount granted per packaging unit. The latter is determined based on a weighted average.

The discounts are deducted from revenue. At year end, KEUR 36,328 was recognized in the balance sheet as provisions for discounts and revenue was reduced by KEUR 71,598.

The following grooming transactions had a material effect on the overall presentation of the financial statements:

The Company concluded a non-recourse factoring agreement with BNP Paribas Factor GmbH dated September 29, 2017. BNP Paribas Factor GmbH purchases all outstanding trade receivables, which fulfill the requirements set forth under Section 2 of the agreement that has been concluded. In addition, BNP Paribas Factor GmbH assumes the del credere risk, accounts receivable management remains with the Company.

Based on the agreement that was concluded, trade receivables decreased significantly to KEUR 1,685 (PY: KEUR 6,492). Cash and cash equivalents increased and as of March 31, 2018, amounted to KEUR 16,084 (PY: KEUR 7,805).

5.2 Conclusion on the overall presentation of the financial statements

Based on an overall consideration of the accounting policies and material transactions described above, we are of the opinion that the financial statements provide a true and fair view of the Company's net assets, financial position and results of operations in accordance with German generally accepted accounting principles.

6 Auditor's report

We have issued the following unqualified auditor's report:



Auditor's report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of Glenmark Arzneimittel GmbH, Gröbenzell, for the financial year from April 1, 2017 to March 31, 2018. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 of the German Commercial Code [HGB] and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors [IDW]. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements, complies with the German statutory requirements, and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.



Munich, July 5, 2018

KPMG AG

Wirtschaftsprüfungsgesellschaft

[Original German version signed by:]

Kaltenegger
Wirtschaftsprüferin
[German Public Auditor]

Argyrakis
Wirtschaftsprüfer
[German Public Auditor]

Appendices

Appendix 1

Financial statements

as of March 31, 2018

and management report

1.1 Balance sheet

1.2 Income statement

1.3 Notes to the financial statements

1.4 Management report

Balance sheet
as of
March 31, 2018

**Glenmark Arzneimittel GmbH
Gröbenzell**

ASSETS

	EUR	Financial year EUR	Prior year EUR
A. Fixed assets			
I. Intangible assets			
Concessions, industrial property rights and similar rights and assets as well as licenses to such rights and assets acquired for a consideration		220,235.00	276,581.00
II. Property, plant and equipment			
Other equipment, operating and office equipment		114,098.00	133,732.00
B. Current assets			
I. Inventories			
Finished goods and merchandise		5,624,418.16	6,491,556.55
II. Receivables and other assets			
1. Trade receivables	1,684,526.37		7,212,852.07
2. Receivables from affiliated companies	33,217,248.89		17,139,298.42
3. Other assets	<u>4,071,599.90</u>	38,973,375.16	2,945,395.71
III. Cash and cash equivalents			
		16,083,868.11	7,805,739.17
C. Prepaid expenses			
		30,070.75	65,648.87
D. Deferred tax assets			
		2,832.25	1,963.84
		<u>61,048,897.43</u>	<u>42,072,767.63</u>

EQUITY AND LIABILITIES

	EUR	Financial year EUR	Prior year EUR
A. Equity			
I. Subscribed capital		50,000.00	50,000.00
II. Capital reserve		1,293,500.00	1,293,500.00
III. Retained earnings (PY: accumulated deficit)		265,400.74	-622,977.18
IV. Net income for the year		1,576,028.97	888,377.92
B. Provisions			
1. Tax provisions		699,000.00	103,360.00
2. Other provisions		36,869,934.99	29,583,614.95
C. Liabilities			
1. Trade payables	2,615,526.50		2,966,530.01
-thereof due within one year EUR 2,615,526.50 (EUR 2,966,530.01)			
2. Liabilities to affiliated companies	882,750.60		878,190.94
-thereof due within one year EUR 882,750.60 (EUR 878,190.94)			
3. Other liabilities	<u>16,796,755.63</u>	20,295,032.73	6,932,170.99
-thereof for taxes EUR 2,221,171.90 (EUR 527,052.48)			
-thereof for social security EUR 7,345.74 (EUR 9,790.61)			
-thereof due within one year EUR 16,796,755.63 (EUR 6,932,170.99)			
		<hr/>	<hr/>
		61,048,897.43	42,072,767.63
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INCOME STATEMENT
for the period from
April 1, 2017, to March 31, 2018

Glenmark Arzneimittel GmbH
Gröbenzell

	EUR	Financial year EUR	Prior year EUR
1. Revenue		30,338,367.14	28,187,819.64
2. Total operating income		30,338,367.14	28,187,819.64
3. Other operating income		99,673.04	56,974.45
4. Cost of materials			
a) Cost of raw materials, supplies and purchased goods	21,554,963.06		21,189,735.17
b) Cost of purchased services	<u>0.00</u>	21,554,963.06	-23.64
5. Personnel expenses			
a) Wages and salaries	2,211,402.78		1,570,193.91
b) Social security, pension and other benefits	<u>334,618.87</u>	2,546,021.65	248,415.00
-thereof for pensions: EUR 240 (EUR 2,497.08)			
6. Amortization and depreciation			
a) of intangible assets and property, plant and equipment		121,096.92	116,854.71
7. Other operating expenses		4,458,110.45	4,021,872.74
8. Other interest and similar income		492,882.18	139,305.82
-thereof from affiliated companies: EUR 492,867.35 (PY: EUR 139,305.82)			
9. Interest and similar expenses		78,485.72	11,870.58
-thereof to affiliated companies: EUR 0.00 (EUR 0.00)			
10. Income taxes		594,771.59	335,614.52
-thereof expenses from additions to and release of deferred taxes EUR 0.00 (EUR 233,241.85)			
-thereof income from additions to and release of deferred taxes EUR 868.41 (EUR 981.61)			
11. Earnings after taxes		1,577,472.97	889,566.92
12. Other taxes		1,444.00	1,189.00
13. Net income for the year		<u>1,576,028.97</u>	<u>888,377.92</u>

Glenmark Arzneimittel GmbH, Gröbenzell

Notes to the financial statements for the 2017/18 financial year

1. General information

The financial statements of Glenmark Arzneimittel GmbH, based in Gröbenzell (Munich commercial register, HRB 188342), were prepared in accordance with the provisions of the German Commercial Code [HGB]. The stated values of the prior-year figures were assumed unchanged. The income statement was prepared using the total cost method.

The relevant provisions of the German Limited Liability Companies Act [GmbHG] were also observed.

2. Accounting policies

The option set out in Article 75 (2) Introductory Act to the German Commercial Code [EGHGB] had already been exercised in the 2015/2016 financial year, meaning that Sections 267 and 277 (1) HGB as amended by the EU Accounting Directive Implementation Act [BilRUG] of July 17, 2015 (Federal Law Gazette [BGBl.] I p. 1245) had already been applied in the 2015/16 financial year. For this reason, revenue is comparable with prior-year revenue, despite the amendment to Section 277 (1) HGB.

The valuation of fixed assets is based on the assumption that the Company will continue as a going concern.

Items were recognized and valued in accordance with general recognition and valuation requirements.

Intangible assets acquired for consideration were stated at cost less amortization based on useful lives of 3 years.

Property, plant and equipment were recognized at cost less depreciation based on useful lives of between 3 and 23 years.

Low-value assets as defined by Section 6 (2) of the German Income Tax Act [EStG] are written off in full in the year of acquisition.

All fixed assets are written down to the lower fair value where necessary.

Inventories relate to merchandise, which are recognized at cost. If the fair value of inventories is lower as of the balance sheet date, this is applied.

Receivables and other assets are stated at nominal value, taking all foreseeable risks into account.

Cash and cash equivalents are stated at nominal value.

The Company used the option found in Section 274 (1) sentence 2 HGB and recognized deferred tax assets. Deferred tax assets were determined using the balance sheet item method (temporary concept).

Equity is stated at nominal value.

Tax provisions and other provisions take account of all identifiable risks and contingent liabilities and are recognized at the full amount of anticipated use. Where permitted under commercial law, the provisions were calculated in line with tax requirements.

Liabilities are recognized at their settlement amount.

The annual financial statements include items denominated in foreign currencies, which are translated to euro. Receivables and liabilities denominated in foreign currency are translated at the average spot exchange rate applicable on the reporting date.

3. Explanatory notes on individual items of the balance sheet

Statement of movements in fixed assets (gross) as of March 31, 2018

The classification of and movements in fixed assets are shown in the attached statement of movements in fixed assets.

Movements in fixed assets: property, plant and equipment – cost

	Cost Apr. 1, 2017 EUR	Additions EUR	Disposals EUR	Reclassifi- cations EUR	Cost Mar. 31, 2018 EUR
I. Intangible assets					
1. Concessions, industrial property rights and similar rights and assets as well as licenses to such rights and assets acquired for a consideration	453,740.87	22,586.00			476,326.87
Intangible assets	453,740.87	22,586.00			476,326.87
II. Property, plant and equipment					
1. Other equipment, operating and office equipment	235,779.75	22,530.92			258,310.67
Property, plant and equipment	235,779.75	22,530.92			258,310.67
	689,368.76	45,116.92			734,637.54

Movements in fixed assets: property, plant and equipment – accumulated depreciation

	Accumulated Amortization, depreciation and write- downs Apr. 1, 2017 EUR	Amortization, depreciation and write- downs during the financial year EUR	Disposals EUR	Reclassi- fications EUR	Accumulated Amortization, depreciation and write- downs Mar. 31, 2018 EUR	Book value Mar. 31, 2017 EUR	Book value Mar. 31, 2018 EUR
I. Intangible assets							
1. Concessions, industrial property rights and similar rights and assets as well as licenses to such rights and assets acquired for a consideration	177,159.87	78,932.00			256,091.87	276,581.00	220,235.00
Intangible assets	177,159.87	78,932.00			256,091.87	276,581.00	220,235.00
II. Property, plant and equipment							
1. Other equipment, operating and office equipment	102,047.75	42,164.92			144,212.67	133,732.00	114,098.00
Property, plant and equipment	102,047.75	42,164.92			144,212.67	133,732.00	114,098.00
	279,207.62	121,096.92			400,304.54	410,313.00	334,333.00

Receivables and other assets

Receivables with a remaining term of more than one year of EUR 45,200.00 (PY: EUR 38,500.00) are recognized under other assets.

Receivables from affiliated companies

As of the reporting date, current receivables from affiliated companies amount to EUR 33,217,248.89 (PY: EUR 17,139,928.42). These largely relate to current receivables from a loan to a group company.

Deferred taxes

Deferred taxes are measured with a company-specific tax rate of 27.375%.

The Company exercised the option of recognizing deferred taxes.

Deferred taxes relate to the difference between the calculation of the provision for holidays for financial reporting and tax purposes.

Restriction on distribution

A total amount of EUR 2,832.25 is subject to a restriction on distribution pursuant to Section 268 (8) HGB. This can be attributed in full to the formation of deferred tax assets.

Provisions

	Mar. 31, 2018	Mar. 31, 2017
	EUR	EUR
Provisions for income taxes	699,000.00	103,360.00
Provision for personnel expenses	357,760.66	200,639.03
Provision for adherence to retention periods	38,976.00	12,264.00
Other provisions	84,900.00	60,900.00
Provision for discounts under Section 130a SGB V	36,328,298.33	29,261,811.92
Provision for the preparation and audit of financial statements	60,000.00	48,000.00

Liabilities to affiliated companies

Liabilities to affiliated companies amounted to EUR 882,750.60 (PY: EUR 878,190.94). These relate solely to trade payables.

4. Other disclosures

Parent company

Glenmark Arzneimittel GmbH is included in the consolidated financial statements of Glenmark Pharmaceuticals Ltd., Mumbai, India, which prepares the consolidated financial statements for the smallest and largest group of consolidated companies. The consolidated financial statements are available at www.glenmarkpharma.com.

Revenue recognition

Revenue is recognized when the risks and rewards of ownership are transferred to the purchaser. The transfer of the risks and rewards occurs when the goods are dispatched to the purchaser.

Employees

The Company had an average of 27 (PY: 22) employees in the financial year.

Managing directors' remuneration

Management's total remuneration is not disclosed as the exemption clause of Section 286 (4) HGB has been applied, as only one managing director receives remuneration from the Company.

Auditor's fee

Total fees paid to the auditor for the financial year were EUR 69,737.83.

This fee consists of EUR 18,645.50 for audit services, EUR 33,217.42 for tax advisory services and EUR 17,874.91 for advisory services.

Appropriation of earnings

The 2017/2018 financial year closed with net income for the year of EUR 1,576,028.97. This was added to the retained earnings brought forward from the prior year of EUR 265,400.74, resulting in retained earnings of EUR 1,841,429.71. The management proposes that the retained earnings be carried forward.

Other financial obligations

There were no off-balance sheet transactions according to Section 285 (3) and (3a) HGB that would be material for the evaluation of the Company's financial performance.

In addition to the liabilities shown in the balance sheet, other financial obligations amount to KEUR 438.

These are broken down as follows:

- - KEUR 89 vehicle leasing
- - KEUR 349 rental obligations for business premises

Events after the reporting period

There were no significant events after the end of the financial year under review that were not taken into account in the income statement or in the balance sheet.

Managing Directors

Last name	First name		Professional occupation
Wilhelm	Barbara		Business graduate [Dipl.-Kauffrau]
Bourne	Oliver		Lawyer
Gupta	Achin	Since March 1, 2018	MBA

Gröbenzell, May 28, 2018

Barbara Wilhelm

Oliver Bourne

Achin Gupta

Glenmark Arzneimittel GmbH, Gröbenzell

Management report for the 2017/2018 financial year

from April 1, 2017, to March 31, 2018

1. Status of the Company

1.1 Business model and corporate structure

Glenmark Pharmaceuticals Ltd. is a research-based, global pharmaceutical company based in Mumbai, India. The company focuses on the discovery of innovative chemical and biological molecules. Glenmark also offers a broad portfolio of generic medicines. Glenmark employs around 11,000 employees across over 80 countries and operates 17 manufacturing facilities and 5 cutting-edge research and development centers (one of which is located in Neuchâtel in Switzerland). Glenmark Pharmaceuticals Ltd. ranks among the top 80 pharma and biotech companies globally.

Since being set up in 2010, the German subsidiary Glenmark Arzneimittel GmbH, based in Gröbenzell near Munich, has established itself as one of the top 20 pharma companies in the German generics segments with its high-quality medicines. Glenmark's portfolio includes many indication groups, with a focus on the central nervous system (CNS), cardiovascular system and respiratory system. Glenmark is a contractual partner to the statutory health insurance funds in relation to numerous products, contributing to the provision of accessible and affordable medicines. As a distribution and trading company, Glenmark Arzneimittel GmbH does not engage in any research and development activities.

1.2 Management system

The Company is managed on the basis of a budget that has been coordinated with the Parent Company. In addition to the income statement and balance sheet, other key figures are included in the monthly reporting package submitted to the Parent Company. Target/actual comparisons and deviation analyses are performed based on these values.

The main financial performance indicators are revenue and EBIT.

2. Market and sector situation

2.1 Overall economic development

The German economy is in good shape and is maintaining its solid and steady rate of growth. In its spring forecast 2018, the German federal government anticipates a 2.3% increase in real GDP. Real GDP rose by 2.2% in 2017. (Source: German Federal Ministry for Economic Affairs and Energy [BMWi], spring forecast 2018)

2.2 Sector development

Revenue in the German generics market amounted to EUR 5.50 billion overall in the year under review (+EUR 0.2 billion compared to the 2016/2017 financial year), based on manufacturer's delivery prices without deducting compulsory manufacturer discounts and without taking patient contributions and returns from discount agreements into account (Data: INSIGHT Health, Feb. 2018).

Among pharma companies in the German generics segment, Glenmark Arzneimittel GmbH was at number 20 ranked by sales volume in the year under review (Data: INSIGHT Health, Feb. 2018).

3. Business development

Net assets, financial performance and results of operations in the 2017/2018 financial year are discussed in detail in the following section.

3.1 Net assets in the 2017/2018 financial year

Glenmark Arzneimittel GmbH's total assets increased by 45.10% to EUR 61.05 million compared to the prior year (PY: EUR 42.07 million).

There was very little change to fixed assets.

Inventories decreased by EUR 0.87 million over the prior year to EUR 5.62 million. This decrease is mainly due to increased sales. In order to safeguard the Company's ability to deliver we anticipate that there will be a further increase to inventories in the first quarter of the coming financial year.

Overall, receivables and other assets increased by EUR 11.68 million. This change largely results from the increase of a business loan to a group company by EUR 16.00 million (total amount of loan EUR 33.00 million). As of the reporting date trade receivables declined year-on-year by EUR 5.53 million, this decrease is largely a result of the conclusion of factoring agreements during the reporting period. Other assets increased by EUR 1.13 million. This increase largely results from security deposits from the factoring service provider.

Cash and cash equivalents increased by EUR 8.28 million to EUR 16.08 million compared to the prior year. The increase in cash and cash equivalents is due to both the positive business development and the conclusion of factoring agreements during the reporting period.

There were only very minor changes in the remaining balance sheet items.

On the liabilities side, equity rose EUR 1.58 million to EUR 3.18 million compared to the prior year.

There is also a EUR 9.52 million increase in liabilities, which is mainly attributable to higher liabilities relating to discounts for health insurance funds of EUR 8.16 million.

The other provisions rose by EUR 7.29 million to a total of EUR 36.87 million. The rise in provisions is mainly connected to the discounts awarded as part of invitations to tender issued by health insurance funds. This increase is related to many newly concluded discount agreements, both for the existing portfolio and the numerous new products.

3.2 Results of operations in the 2017/2018 financial year

Glenmark Arzneimittel GmbH reported a EUR 0.66 million increase in EBIT to EUR 1.76 million in the year under review. Revenue from operating activities increased by 7.63% compared to the prior year to EUR 30.34 million in the reporting year. The rise in revenue materialized from the increase in market share in Germany. This is also reflected in the number of packages sold. A total of 4.46 million packages were sold in the reporting period which represents a year-on-year increase of 10.06%. The cost of materials increased by 1.72%. The less than proportional rise in this regard is due to the improved purchasing terms for a variety of products.

Personnel expenses climbed year-on-year by 40.00%. This is due to an increase in headcount both in the second half of the prior reporting period as well as at the beginning of this financial year. The total amount of amortization and depreciation remained almost constant, rising just 3.63% compared to the prior year.

EBIT totals EUR 1.76 million. This corresponds to an increase of EUR 0.66 million and reflects the Company's positive business development with increased levels of revenue coupled with improved purchasing terms. In addition, there was a net interest income of EUR 0.41 million, which is mainly down to the interest on the business loan granted to a group company.

3.3 Financial position in the 2017/2018 financial year

The Company finances itself predominantly from cash flows from operating activities. In this regard, the Company's financial position developed favorably in the 2017/2018 financial year. No external financing takes place, therefore no credit lines have been established with banks. Cash and cash equivalents increased year-on-year by EUR 8.28 million to EUR 16.08 million. The increase in cash and cash equivalents is due to both the positive business development and the conclusion of factoring agreements during the reporting period. EUR 8.85 million was generated from factoring agreements as of the balance sheet date. Despite the increase to a loan to a group company, the Company's liquidity was able to be ensured and expanded.

4. Management's overall assessment of the 2017/2018 financial year

The management of Glenmark Arzneimittel GmbH considers the 2017/2018 financial year to be a successful one. In the forecast report in the 2016/2017 financial year, the Company predicted a rise in revenue in the single-digit percentage range and unchanged EBIT. In terms of revenue this forecast was met with an increase of 7.63% and even exceeded in terms of EBIT with an increase of EUR 0.66 million.

Cost pressure in the field of pharmaceutical generics consistently remains high and is influenced by the discount agreements with health insurance funds. Glenmark Arzneimittel GmbH has achieved its objective to establish itself as one of the top 20 pharma companies in the generics segment. In addition to new discount agreements for the existing portfolio, the portfolio was further diversified by a wide range of new preparations.

Besides the main segment of neurology, the pain segment was also further expanded in the prior year and preparations in the therapeutic area of infectiology were successfully placed on the market. The introduction of new products in these business areas, coupled with targeted marketing measures, will ensure steady growth in the future.

In this regard, the discount agreements with statutory health insurance funds are also of great importance for Glenmark Arzneimittel GmbH. In relation to the overall portfolio, the Company has affirmed the successes of the prior years and expanded on them further.

The further differentiation of the portfolio combined with timely marketing measures constantly improves Glenmark Arzneimittel GmbH's presence with pharmacies and doctors. Management considers this a key basis for the Company to grow steadily in future.

No events occurred after the balance sheet date that were of significant importance for the Company's net assets, financial position and results of operations.

5. Risks and opportunities

5.1 Opportunities

Glenmark Arzneimittel GmbH's business activities are influenced mainly by invitations to tender issued by the statutory health insurance funds and the associated market structure.

As the manufacturing of a large part of the portfolio is backwardly integrated with the Group headquarters, the Company has cost structures which will ensure growth and competitiveness also for the future.

Glenmark Arzneimittel GmbH will continue to concentrate on concluding discount agreements in the future and is gradually exploiting new target groups.

The planned expansion of the portfolio follows a strategic concept, which is driven by the Glenmark group both in Europe and globally.

5.2 Risks

Procurement risks

Glenmark Arzneimittel GmbH specializes in the distribution of finished medicinal products; without any manufacturing activities of its own, it is dependent on the reliability of suppliers. Through continuous supervision, any difficulties with suppliers can be avoided to the greatest extent possible. To this aim, the specialist departments keep in regular contact with their suppliers. Nevertheless, unexpected incidents out of our control can lead to a partial or total failure in the supply of merchandise, or to delays. This represents a risk for Glenmark Arzneimittel GmbH. This risk is considered to be medium due to the continuous supervision.

Price risks

It is very likely that further significant price changes will occur, whether due to statutory requirements or new providers entering the market. In relation to our new products, we expect the list prices to fall in the coming years. We also expect quotation prices under discount agreements to fall further. To counteract these risks, we are broadening and diversifying the portfolio. This risk is considered medium.

Cost risks

Cost of materials is the main cost element for Glenmark Arzneimittel GmbH. In this regard, a distinction must be drawn between backwardly integrated products from group manufacturing facilities and products from external suppliers. For manufacturing within the group, it is assumed that commodity prices, and therefore also the market prices of the finished goods, will remain at current levels or sink even further. For products from external suppliers, we have concluded long-term supply agreements to safeguard procurement costs. This risk is considered low.

Overall conclusion on the risk situation

Accounting for measures taken to manage risks, management did not identify any risks in the year under review that individually or collectively pose a threat to the Company's net assets, financial position and results of operations in such a way as to affect the Company's ability to continue as a going concern. Risks that are as yet unknown or considered immaterial could gain in importance should there be a change in general conditions. The Company has set up organizational conditions for obtaining knowledge on emerging changes to the risk situation early, and to react adequately to such changes.

6. Outlook for the 2018/2019 financial year

The high price pressure due to the discount agreements with health insurance funds increases the importance of diversifying the portfolio further and exploring new therapeutic target groups. This requires a selective approach coupled with targeted marketing measures. This will be a main focus for coming financial years. The aim is to further expand our market share and to establish our company permanently as one of the top 20 pharma companies in the German generics segment.

In the current financial year, we already successfully participated in tender processes for discount agreements with health insurance funds. This includes the aim of setting up and expanding market shares as well as taking into account strategic considerations of the entire Glenmark group.

Through the market introduction of new products as well as an expansion of the market share for the existing portfolio and further expansion of internal structures, management expects a positive overall result in the coming year.

On the basis of the factors described, the Company expects a 10% rise in revenue and an unchanged EBIT for the 2018/2019 financial year.

Due to the forecast character of all statements that relate to the future, actual results may differ significantly from expected developments.

Gröbenzell, May 28, 2018

Barbara Wilhelm

Oliver Bourne

Achin Gupta

Appendix 2
General Engagement
Terms

General Engagement Terms

for

Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften

[German Public Auditors and Public Audit Firms]

as of January 1, 2017

1. Scope of application

(1) These engagement terms apply to contracts between German Public Auditors (*Wirtschaftsprüfer*) or German Public Audit Firms (*Wirtschaftsprüfungsgesellschaften*) – hereinafter collectively referred to as "German Public Auditors" – and their engaging parties for assurance services, tax advisory services, advice on business matters and other engagements except as otherwise agreed in writing or prescribed by a mandatory rule.

(2) Third parties may derive claims from contracts between German Public Auditors and engaging parties only when this is expressly agreed or results from mandatory rules prescribed by law. In relation to such claims, these engagement terms also apply to these third parties.

2. Scope and execution of the engagement

(1) Object of the engagement is the agreed service – not a particular economic result. The engagement will be performed in accordance with the German Principles of Proper Professional Conduct (*Grundsätze ordnungsmäßiger Berufsausübung*). The German Public Auditor does not assume any management functions in connection with his services. The German Public Auditor is not responsible for the use or implementation of the results of his services. The German Public Auditor is entitled to make use of competent persons to conduct the engagement.

(2) Except for assurance engagements (*betriebswirtschaftliche Prüfungen*), the consideration of foreign law requires an express written agreement.

(3) If circumstances or the legal situation change subsequent to the release of the final professional statement, the German Public Auditor is not obligated to refer the engaging party to changes or any consequences resulting therefrom.

3. The obligations of the engaging party to cooperate

(1) The engaging party shall ensure that all documents and further information necessary for the performance of the engagement are provided to the German Public Auditor on a timely basis, and that he is informed of all events and circumstances that may be of significance to the performance of the engagement. This also applies to those documents and further information, events and circumstances that first become known during the German Public Auditor's work. The engaging party will also designate suitable persons to provide information.

(2) Upon the request of the German Public Auditor, the engaging party shall confirm the completeness of the documents and further information provided as well as the explanations and statements, in a written statement drafted by the German Public Auditor.

4. Ensuring independence

(1) The engaging party shall refrain from anything that endangers the independence of the German Public Auditor's staff. This applies throughout the term of the engagement, and in particular to offers of employment or to assume an executive or non-executive role, and to offers to accept engagements on their own behalf.

(2) Were the performance of the engagement to impair the independence of the German Public Auditor, of related firms, firms within his network, or such firms associated with him, to which the independence requirements apply in the same way as to the German Public Auditor in other engagement relationships, the German Public Auditor is entitled to terminate the engagement for good cause.

5. Reporting and oral information

To the extent that the German Public Auditor is required to present results in writing as part of the work in executing the engagement, only that written work is authoritative. Drafts are non-binding. Except as otherwise agreed, oral statements and explanations by the German Public Auditor are binding only when they are confirmed in writing. Statements and information of the German Public Auditor outside of the engagement are always non-binding.

6. Distribution of a German Public Auditor's professional statement

(1) The distribution to a third party of professional statements of the German Public Auditor (results of work or extracts of the results of work whether in draft or in a final version) or information about the German Public Auditor acting for the engaging party requires the German Public Auditor's written consent, unless the engaging party is obligated to distribute or inform due to law or a regulatory requirement.

(2) The use by the engaging party for promotional purposes of the German Public Auditor's professional statements and of information about the German Public Auditor acting for the engaging party is prohibited.

7. Deficiency rectification

(1) In case there are any deficiencies, the engaging party is entitled to specific subsequent performance by the German Public Auditor. The engaging party may reduce the fees or cancel the contract for failure of such subsequent performance, for subsequent non-performance or unjustified refusal to perform subsequently, or for unconscionability or impossibility of subsequent performance. If the engagement was not commissioned by a consumer, the engaging party may only cancel the contract due to a deficiency if the service rendered is not relevant to him due to failure of subsequent performance, to subsequent non-performance, to unconscionability or impossibility of subsequent performance. No. 9 applies to the extent that further claims for damages exist.

(2) The engaging party must assert a claim for the rectification of deficiencies in writing (*Textform*) [Translators Note: *The German term "Textform" means in written form, but without requiring a signature*] without delay. Claims pursuant to paragraph 1 not arising from an intentional act expire after one year subsequent to the commencement of the time limit under the statute of limitations.

(3) Apparent deficiencies, such as clerical errors, arithmetical errors and deficiencies associated with technicalities contained in a German Public Auditor's professional statement (long-form reports, expert opinions etc.) may be corrected – also versus third parties – by the German Public Auditor at any time. Misstatements which may call into question the results contained in a German Public Auditor's professional statement entitle the German Public Auditor to withdraw such statement – also versus third parties. In such cases the German Public Auditor should first hear the engaging party, if practicable.

8. Confidentiality towards third parties, and data protection

(1) Pursuant to the law (§ [Article] 323 Abs 1 [paragraph 1] HGB [German Commercial Code: *Handelsgesetzbuch*], § 43 WPO [German Law regulating the Profession of Wirtschaftsprüfer: *Wirtschaftsprüferordnung*], § 203 StGB [German Criminal Code: *Strafgesetzbuch*]) the German Public Auditor is obligated to maintain confidentiality regarding facts and circumstances confided to him or of which he becomes aware in the course of his professional work, unless the engaging party releases him from this confidentiality obligation.

(2) When processing personal data, the German Public Auditor will observe national and European legal provisions on data protection.

9. Liability

(1) For legally required services by German Public Auditors, in particular audits, the respective legal limitations of liability, in particular the limitation of liability pursuant to § 323 Abs. 2 HGB, apply.

(2) Insofar neither a statutory limitation of liability is applicable, nor an individual contractual limitation of liability exists, the liability of the German Public Auditor for claims for damages of any other kind, except for damages resulting from injury to life, body or health as well as for damages that constitute a duty of replacement by a producer pursuant to § 1 ProdHaftG [German Product Liability Act: *Produkthaftungsgesetz*], for an individual case of damages caused by negligence is limited to € 4 million pursuant to § 54 a Abs. 1 Nr. 2 WPO.

(3) The German Public Auditor is entitled to invoke demurs and defenses based on the contractual relationship with the engaging party also towards third parties.

(4) When multiple claimants assert a claim for damages arising from an existing contractual relationship with the German Public Auditor due to the German Public Auditor's negligent breach of duty, the maximum amount stipulated in paragraph 2 applies to the respective claims of all claimants collectively.

(5) An individual case of damages within the meaning of paragraph 2 also exists in relation to a uniform damage arising from a number of breaches of duty. The individual case of damages encompasses all consequences from a breach of duty regardless of whether the damages occurred in one year or in a number of successive years. In this case, multiple acts or omissions based on the same source of error or on a source of error of an equivalent nature are deemed to be a single breach of duty if the matters in question are legally or economically connected to one another. In this event the claim against the German Public Auditor is limited to € 5 million. The limitation to the fivefold of the minimum amount insured does not apply to compulsory audits required by law.

(6) A claim for damages expires if a suit is not filed within six months subsequent to the written refusal of acceptance of the indemnity and the engaging party has been informed of this consequence. This does not apply to claims for damages resulting from scienter, a culpable injury to life, body or health as well as for damages that constitute a liability for replacement by a producer pursuant to § 1 ProdHaftG. The right to invoke a plea of the statute of limitations remains unaffected.

10. Supplementary provisions for audit engagements

(1) If the engaging party subsequently amends the financial statements or management report audited by a German Public Auditor and accompanied by an auditor's report, he may no longer use this auditor's report.

If the German Public Auditor has not issued an auditor's report, a reference to the audit conducted by the German Public Auditor in the management report or any other public reference is permitted only with the German Public Auditor's written consent and with a wording authorized by him.

(2) If the German Public Auditor revokes the auditor's report, it may no longer be used. If the engaging party has already made use of the auditor's report, then upon the request of the German Public Auditor he must give notification of the revocation.

(3) The engaging party has a right to five official copies of the report. Additional official copies will be charged separately.

11. Supplementary provisions for assistance in tax matters

(1) When advising on an individual tax issue as well as when providing ongoing tax advice, the German Public Auditor is entitled to use as a correct and complete basis the facts provided by the engaging party – especially numerical disclosures; this also applies to bookkeeping engagements. Nevertheless, he is obligated to indicate to the engaging party any errors he has identified.

(2) The tax advisory engagement does not encompass procedures required to observe deadlines, unless the German Public Auditor has explicitly accepted a corresponding engagement. In this case the engaging party must provide the German Public Auditor with all documents required to observe deadlines – in particular tax assessments – on such a timely basis that the German Public Auditor has an appropriate lead time.

(3) Except as agreed otherwise in writing, ongoing tax advice encompasses the following work during the contract period:

- a) preparation of annual tax returns for income tax, corporate tax and business tax, as well as wealth tax returns, namely on the basis of the annual financial statements, and on other schedules and evidence documents required for the taxation, to be provided by the engaging party
- b) examination of tax assessments in relation to the taxes referred to in (a)
- c) negotiations with tax authorities in connection with the returns and assessments mentioned in (a) and (b)
- d) support in tax audits and evaluation of the results of tax audits with respect to the taxes referred to in (a)
- e) participation in petition or protest and appeal procedures with respect to the taxes mentioned in (a).

In the aforementioned tasks the German Public Auditor takes into account material published legal decisions and administrative interpretations.

(4) If the German Public auditor receives a fixed fee for ongoing tax advice, the work mentioned under paragraph 3 (d) and (e) is to be remunerated separately, except as agreed otherwise in writing.

(5) Insofar the German Public Auditor is also a German Tax Advisor and the German Tax Advice Remuneration Regulation (*Steuerberatungsvergütungsverordnung*) is to be applied to calculate the remuneration, a greater or lesser remuneration than the legal default remuneration can be agreed in writing (*Textform*).

(6) Work relating to special individual issues for income tax, corporate tax, business tax, valuation assessments for property units, wealth tax, as well as all issues in relation to sales tax, payroll tax, other taxes and dues requires a separate engagement. This also applies to:

- a) work on non-recurring tax matters, e.g. in the field of estate tax, capital transactions tax, and real estate sales tax;
- b) support and representation in proceedings before tax and administrative courts and in criminal tax matters;
- c) advisory work and work related to expert opinions in connection with changes in legal form and other re-organizations, capital increases and reductions, insolvency related business reorganizations, admission and retirement of owners, sale of a business, liquidations and the like, and
- d) support in complying with disclosure and documentation obligations.

(7) To the extent that the preparation of the annual sales tax return is undertaken as additional work, this includes neither the review of any special accounting prerequisites nor the issue as to whether all potential sales tax allowances have been identified. No guarantee is given for the complete compilation of documents to claim the input tax credit.

12. Electronic communication

Communication between the German Public Auditor and the engaging party may be via e-mail. In the event that the engaging party does not wish to communicate via e-mail or sets special security requirements, such as the encryption of e-mails, the engaging party will inform the German Public Auditor in writing (*Textform*) accordingly.

13. Remuneration

(1) In addition to his claims for fees, the German Public Auditor is entitled to claim reimbursement of his expenses; sales tax will be billed additionally. He may claim appropriate advances on remuneration and reimbursement of expenses and may make the delivery of his services dependent upon the complete satisfaction of his claims. Multiple engaging parties are jointly and severally liable.

(2) If the engaging party is not a consumer, then a set-off against the German Public Auditor's claims for remuneration and reimbursement of expenses is admissible only for undisputed claims or claims determined to be legally binding.

14. Dispute Settlement

The German Public Auditor is not prepared to participate in dispute settlement procedures before a consumer arbitration board (*Verbraucherschlichtungsstelle*) within the meaning of § 2 of the German Act on Consumer Dispute Settlements (*Verbraucherstreitbeilegungsgesetz*).

15. Applicable law

The contract, the performance of the services and all claims resulting therefrom are exclusively governed by German law.