Laboratorios Grin, S. A. de C. V.

(subsidiary of Lupin Atlantis Holdings, S. A.)
Audited Financial Statements
March 31, 2018

Laboratorios Grin, S. A. de C. V.
(subsidiary of Lupin Atlantis Holdings, S. A.)
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Report of Independent Auditors

To the Directors of Laboratorios Grin, S. A. de C. V.

Opinion

We have audited the financial statements of Laboratorios Grin, S. A. de C. V. , which comprise the statement of financial position as of March 31, 2018, and the related statements of comprehensive income, of changes in equity and of cash flows for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with Mexican Financial Reporting Standards (NIF).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Ethics Standards of Mexican Institute of Public Accountants together with other requirements applicable to our audit in Mexico. We have fulfilled our other ethical responsibilities in accordance with those requirements and standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with NIF and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company´s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company´s financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers, S. C.

C.P.C. René Menchaca Jáuregui
Audit Partner

Mexico City May 14, 2018

Laboratorios Grin, S. A. de C. V.
(subsidiary of Lupin Atlantis Holdings, S. A.)
Statements of Financial Position

Mexican pesos (Note 3)

Assets	March 31 2018	March 31 2017
Current assets:		
Cash and cash equivalents (Notes 3a. and 6)	Ps 66,988,674	Ps 57,585,912
Accounts receivable (Note 3b.):		
Clients, net of allowance for doubtful accounts, discounts & returns of Ps3,624,767 in 2018 and Ps4,064,196 in 2017	193,503,019	145,689,747
Other receivables	12,622,589	12,637,049
	273,114,282	215,912,708
Inventories-Net (Notes 3c. and 7)	186,163,832	134,646,515
Advanced payments (Note 3e.)	8,077,489	8,216,965
Total current assets	467,355,603	358,776,188
Property, plant and equipment-Net (Notes 3d. and 9)	302,823,681	284,975,572
Intangible assets-Net (Notes 3f. and 10)	22,349,943	22,479,905
Deferred income taxes (Notes 3i. and 14)	13,367,525	8,214,631
Employee statutory profit sharing (Notes 3j. and 17)	4,178,293	1,919,837
Total assets	Ps 810,075,045	Ps 676,366,133

Liabilities and Stockholders' Equity	March 31 2018	March 31 2017
Current liabilities:		
Trade accounts payable	Ps 41,933,863	Ps 40,138,128
Accrued (Notes 3h. and 11)	22,740,221	18,899,412
Accounts payable and other accrued expenses	11,900,830	13,602,316
Income taxes payable	48,470,528	17,811,919
Employee statutory profit sharing	20,931,785	10,103,566
Related parties (Note 8)	5,083,920	38,263,357
Obligations for delivery of products	66,271	5,049,808
Total current liabilities	151,127,418	143,868,506
Long-term debt (Note 8)	209,470,865	213,743,032
Employee benefits (Notes 3k. and 12)	7,223,036	4,245,721
Total liabilities	387,821,319	361,857,259
Stockholders' equity:		
Capital stock (Notes 3l. and 13)	187,000,000	187,000,000
Retained earnings and other capital accounts	257,340,338	127,403,101
Other comprehensive income	(2,086,612)	105,773
Total stockholders' equity	442,253,726	314,508,874
Total liabilities and stockholders' equity	Ps 810,075,045	Ps 676,366,133

The nineteen attached notes are integral part of these financial statements, which were authorize for their issuance on May 14, 2018, by the officer or body underwriting below.

Mr. Samuel Valadez Landgrave
Finance Director

Laboratorios Grin, S. A. de C. V.
(subsidiary of Lupin Atlantis Holdings, S. A.)
Statements of Comprehensive Income
(Notes 2 and 3)

Mexican pesos (Note 3)

	Year ended March 31, 2018	Year ended March 31, 2017
Net Sales (Notes 3o. and 15)	Ps 644,764,846	Ps 529,772,990
Cost of sales	189,679,409	167,063,761
Gross profit	455,085,437	362,709,229
Expenses (Notes 3n. and 16)		
Selling and distribution	166,198,631	146,145,944
Administrative	83,368,622	65,828,130
Research and development	15,216,538	59,263,994
Total expenses	264,783,791	271,238,068
Operating income	190,301,646	91,471,161
Comprehensive financing result:		
Interest expense - Net	7,746,815	8,972,263
Foreign exchange loss - Net	(5,531,721)	12,434,206
Comprehensive financial results - Net	2,215,094	21,406,469
Profit before income tax	188,086,552	70,064,692
Income tax (Note 14)	58,149,315	27,503,109
Net income	129,937,237	42,561,583
Other comprehensive income		
Remeasurements of defined benefit liability	(2,192,385)	55,207
Comprehensive (loss) income for year	Ps 127,744,852	Ps 42,616,790

The nineteen attached notes are integral part of these financial statements, which were authorize for their issuance on May 14, 2018, by the officer or body underwriting below.

Mr. Samuel Valadez Landgrave
Finance Director

Laboratorios Grin, S. A. de C. V.

(subsidiary of Lupin Atlantis Holdings, S. A.)

Statements of Changes in the Stockholders' Equity

(Notes 2, 3 and 17)

Mexican pesos (Note 3)

Concept	Capital stock	Earnings	Other capital accounts	Subtotal	Other comprehensive income	Total stockholders' equity
Balances at April 1, 2016	Ps 187,000,000	Ps 84,830,375	Ps 11,143	Ps 271,841,518	Ps 50,566	Ps 271,892,084
Net profit of the year 2016		42,561,583		42,561,583	55,207	42,616,790
Balance at March 31, 2017	187,000,000	127,391,958	11,143	314,403,101	105,773	314,508,874
Net profit of the year 2018		129,937,237		129,937,237	(2,192,385)	127,744,852
Balances at March 31, 2018 (Notes 3l. and 13)	Ps 187,000,000	Ps 257,329,195	Ps 11,143	Ps 444,340,338	(Ps 2,086,612)	Ps 442,253,726

The nineteen attached notes are integral part of these financial statements, which were authorize for their issuance on May 14, 2018, by the officer or body underwriting below.

Mr. Samuel Valadez Landgrave
Finance Director

Laboratorios Grin, S. A. de C. V.
(subsidiary of Lupin Atlantis Holdings, S. A.)
Statements of Cash Flows
(Notes 2 and 3)

Mexican pesos (Note 3)

	Year ended March 31,	
Operating activities	2018	2017
Profit before income tax	Ps 188,086,552	Ps 70,064,692
Investing activities related items:		
Depreciation and amortization	19,625,453	15,120,610
Loss on sale of fixed assets	(472,000)	(251,918)
Interest income	(2,707,129)	(2,707,129)
Interest expense	11,283,334	11,679,392
Deferred employees' statutory profit sharing	(2,258,457)	(2,917,711)
Unrealized foreign exchange loss	(4,272,167)	12,373,517
Subtotal of item related to investing activities net cash flows	209,285,586	103,361,453
(Increase) decrease in:		
Accounts receivable	(47,813,272)	(36,373,880)
Other accounts receivable	14,460	349,882
Inventories - Net	(51,517,317)	(57,651,408)
Prepayments	(227,442)	(2,932,245)
Trade accounts payable	1,795,735	10,557,693
Accrued expenses	28,957,123	11,200,142
Accruals	3,840,809	10,114,262
Income taxes paid	(63,302,209)	(35,771,123)
Employees' statutory profit sharing	10,828,219	1,300,640
Employees' benefits	784,930	251,003
Related parties	(33,179,437)	(17,732,593)
Obligations for delivery of products	(4,983,537)	2,864,528
Net cash flows from operating activities	54,483,648	(10,461,646)
Investing activities		
Acquisition of property, plant and equipment	(35,849,422)	(49,814,135)
Acquisitions of intangible assets	(1,543,120)	(4,751,298)
Proceeds from sale of equipment	887,861	1,361,550
Interest received	2,707,129	2,707,129
Net cash flows from investing activities	(33,797,552)	(50,496,754)
Cash surplus to be used in financing activities	20,686,096	(60,958,400)
Financing activities		
Long-term liabilities	(11,283,334)	(11,679,392)
Paid interests	-	-
Financing activities net cash flows	(11,283,334)	(11,679,392)
Net increase (decrease) in a cash and cash equivalents	9,402,762	(72,637,792)
Cash and cash equivalents at the beginning of year	57,585,912	130,223,704
Cash and cash equivalents at end of year (Notes 3a. and 6)	Ps 66,988,674	Ps 57,585,912

The nineteen attached notes are integral part of these financial statements, which were authorize for their issuance on May 14, 2018, by the officer or body underwriting below.

Mr. Samuel Valadez Landgrave
Finance Director

Amount in Mexican pesos

Note 1 - History, nature and Company activities:

Laboratorios Grin, S. A. de C. V. (Company) is a direct subsidiary of Lupin Atlantis Holdings, S. A., subsidiaries of Lupin Limited, which issues consolidated financial statements and was constituted on September 14, 1955 in Mexico City, with a duration of 100 years. The main activity of the Company is manufacturing, formulation, marketing, import, export and selling of ophthalmic products.

For Lupin Limited Consolidation purposes, the Company has determined that its normal operating cycle comprises from April 1 to March 31 each year. The address of its registered office is at Rodríguez Saro No. 630, Col. Del Valle, C.P. 03100.

On September 30, 2014, Lupin Atlantis Holdings, S. A. and its legal delegate Dr. Amrut Naik acquired the 100% of the shares of Laboratorios Grin, S. A. de C. V. of Infrema, S. A. de C. V., becoming from this date the new controlling company who will consolidate its financial information.

The Company's capital stock at June 30, 2016 is represented by 187,000,000 common, registered shares, with a par value of one peso each of the Class "I", which 186,999,999 shares belong to Lupin Atlantis, S. A. and one share belongs to Amrut Diwakar Naik.

At the Stockholders' Meeting held on June 6,2016, a resolution to the stockholder Amrut Naik Diwakar, gratuitously give in its shareholding in Laboratorios Grin, S. A. de C. V. to Lupin México, S. A. de C. V.

Note 2 - Basis for preparation:

Preparation of financial statements

The accompanying financial statements have been specifically prepared for their presentation to the Shareholders' Meeting and to comply with the legal provisions which the Company is subject to as an independent legal entity.

Mexican Financial Reporting Standards (MFRS)

The accompanying financial statements at March 31, 2018 and 2017 fairly meet the provisions of MFRS to show a fair presentation of the Company's financial position. MFRS state that International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), International Financial Reporting Interpretations (IFRIC) and the Interpretation Committee (SIC) are supplementary part of MFRS when the absence of MFRS requires it. Accordingly, the Company with the purpose of recognizing, valuing and disclosing its own particular transactions, applies the following supplementary IFRS, IFRIC and SIC issued by the International Accounting Standard Board (IASB):

IAS-18 "Revenue", effective as of January 1, 1995.

2018

MFRS D-1 "Revenue for client contracts". Establishes the valuation, presentation and disclosure standards for revenue incurred in to obtain or comply with client contracts. Establishes the most significant aspects for the recognition of revenue through the transfer of control, identification of obligations to be complied in a contact, allocation of the transaction amount and recognition of collection rights. This MFRS removes the supplementary application of the International Accounting Standard (IAS) 18 "Revenue" and its interpretation as established in MFRS A-8, "Supplementary Application".

Improvements to MFRS 2018

- MFRS B-2 "Statement of Cash Flows". It is required to disclose relevant changes that have required or not the use of cash or cash equivalents in liabilities considered as a part of financing activities, preferably presenting a reconciliation between opening and closing balances.

- MFRS B-10 "Inflation effects". It is required to disclose, in addition to the required above, the cumulative amount of the three previous years which include the two previous annual periods and the annual period referred to in the financial statements.

- MFRS C-6 "Property, plant and equipment". It is cleared that the depreciation method based in Revenue is not considered valid, therefore, depreciation based in activity methods are the only ones allowed.

- MFRS C-8 "Intangible assets". Establishes that the use of an intangible assets amortization method based on the income amount related to the use of such assets is not appropriate.

- MFRS C-14 "Transfer and derecognition of financial assets". Points out that the subsequent recognition of a transferred asset must be carried out based on the relative standards, eliminating the previous methodology that established that when the subsequent recognition was made at fair value the effects of the transferred asset were recognized in profit or loss.

Improvements to MFRS 2017

- MFRS B-7 "Business acquisitions". The application of the change to improvements 2017 is modified, thus it should be prospectively applied.

- MFRS B-13 "Events subsequent to the date of the financial statements". Establishes that if during the subsequent period (lapse between the date of the financial statements and the date on which they are authorized for issuance to third parties) a debtor entity achieves an agreement to maintain long-term payments for liabilities hired with payment conditions at long term and which it has defaulted, retains the classification of such liability as long-term item at the date of the financial statements.

- MFRS B-6 "Statement of the financial position". See the improvement established in MFRS B-13.

- MFRS C-4 "Inventory". It is required to disclose in the notes to the financial statements the existence of inventories in custody or for demonstration, as well as commitments made in this respect, including those contracted by maquila inventories.

- MFRS C-6 "Property, plant and equipment". It is required to disclose in the notes to the financial statements the existence of components received for maquila or demonstration, as well as commitments made in this respect, in accordance to the related agreement.

- MFRS C-19 "Payable financial instruments". See the improvement established in MFRS B-13.

- MFRS C-20 "Receivable financial instruments". See the improvement established in MFRS B-13.

- MFRS C-11 "Stockholders' equity". Establishes that costs of listing in a stock exchange that at listing date were already owned by investors and by which the issuer had already received the corresponding funds, should be recognized by the entity in net profit or loss at the time of their accrual, and not in stockholders' equity since they are not considered to be related to an equity transaction of the entity.

- Additionally, no profit or loss on the acquisition, relocation, issuance or write-off of entity's own shares should be recognize in the comprehensive income statement.

- MFRS D-3 "Employee benefits". Establishes that discount rates to be used in the determination of the present value of long-term labor liabilities must be a free market rate with very little or no credit risk, which represents the value of money over time; consequently, the entity may use indistinctly either the government bond market rate or the high quality corporate bond market rate in absolute terms in a deep market, provided it supports, in the latter case, that it meets all requirements of MFRS. It also establishes that the difference resulting between plan assets reached by the recognition in the income statement of the interest income estimated during the period and the plan assets fair value at period-end must be recognized, optionally, in other comprehensive income or in net profit or loss at the date of its determination; the entity must be consistent in the recognition of remeasurement.

Financial statements authorization

The accompanying financial statements and their notes were authorized for their issuance on May 14, 2018 by Samuel Valadez Landgrave Legal Delegate.

Note 3 - Summary of significant accounting policies:

Most significant accounting policies are summarized as follows, which have been consistently applied in the reporting years, unless otherwise indicated.

The MFRS require the use of some critical accounting estimates in the preparation of financial statements. Also, Management judgment is required in the process of defining the Company's accounting policies.

Recording, functional and reporting currency

In accordance with the provisions of MFRS B-15 "Translation of foreign currency", the Company has identified that the recording currency, as well as the functional currency and reporting currency is the Mexican peso (Ps); therefore, it was not necessary to carry out any conversion process.

Inflation effects in financial information

According to the provisions in the MFRS B-10 "Inflation effects", as of January 1, 2008, Mexican economy is not an inflationary environment, since the last three years there has been a cumulative inflation below 26% (threshold to define that an economy should be considered as inflationary); therefore, as of that date, it has been required to discontinue the recognition of inflation effects in the financial information. Accordingly, figures of the accompanying financial statements at March 31, 2018 and 2017, are stated in historical Mexican pesos.

Inflation rates are shown below:

	March 31,	
	2018 (%)	2017 (%)
Annual inflation rate	5.04	5.35
Cumulative inflation of the last three years	12.99	11.48

a. Cash and cash equivalents

Cash and cash equivalents include cash balances, bank deposits and other highly liquid investments with minor risks by changes in their value. See Note 6.

Cash and cash equivalents are initially recognized at fair value.

b. Accounts receivable and other receivables

Accounts receivable represent amounts due from customers and are generated by sales of goods or services provided in the normal course of Company's operations. When collection is expected in a period of one year or less from the closing date (or in the normal operating cycle of the business if this cycle exceeds this period), they are presented as current assets. If the above is not met, they are presented as non-current assets.

Other accounts receivable represent amounts arising from the sale of fixed assets in the normal course of Company's operations, which are expected to be collected over a period of one year or less from the closing date (or in the normal cycle of business operations in the event that this cycle exceeds this period), are presented as current asset. If the above is not met, they are presented as non-current assets.

Accounts receivable and other receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective-interest-rate method, less the allowance for uncollectability, when applicable.

c. Inventories

At Mach 31, 2018 and 2017, inventories and cost of sales are expressed at their cost, determined through the average cost. Values determined like this do not exceed their net realization value.

Inventory is subject to annual impairment testing with the purpose of identifying obsolescence, damaged inventory or low market values. In the event the amount of inventory future economic benefits, its net estimated realization value, is lower to its net carrying amount, an impairment loss is recognized which is recorded in the sales cost of the period presented. See Note 7.

d. Property, plant and equipment

The property, plant and equipment are expressed at their acquisition cost.

Therefore, at March 31, 2018 and 2017, property, machinery and equipment are stated at its historical cost less the cumulated depreciation.

The acquisition cost of property, plant and equipment that requiring a substantial period to be in usage conditions include: the acquisition cost and the capitalization of the comprehensive financing result income (loss) accrued in such period and attributable at acquisition. See Note 9.

The Company has used the following the straight line criteria for the selection of the depreciation method and for the estimations of useful lives or depreciation percentages.

e. Advanced payments

Advanced payments represent such expenditures made by the Company where the risks and benefits inherent to the goods to be acquired or services to be received have not been transferred. Advanced payments are recorded at their cost and presented in the statement of the financial position as current or non-current assets, depending on the destination item.

Once goods and/or services related to advanced payments are received, they should be recognized as an expense or an asset in the period income, according to their respective nature.

f. Intangible assets

Intangible assets are recognized when they meet the following conditions: are identifiable, provide future economic benefits and the Company has control over such benefits. Intangible assets are classified as follows:

i) Definite life: are those whose expected future economic benefits are limited by any legal or economic condition and are amortized in straight line in accordance to the best estimation of their useful life, and are subject to annual impairment testing when impairment indicators are identified. See Note 10.

Intangible assets either acquired or developed, are expressed at historical cost.

g. Suppliers

This item includes obligations with suppliers for purchases of goods or services acquired in the normal course of Company's operations. When collection is expected in a period of one year or less from the closing date (or in the normal operating cycle of the business if this cycle exceeds this period), they are presented as current liabilities. If the above is not met, they are presented as non-current liabilities.

h. Provisions

Liability provisions represent current obligations for past events where outflow of economic resources is possible (it is more likely than not). These provisions have been recorded based on Management's best estimation. See Note 11.

i. Current and deferred income tax

Current and deferred tax is recognized as an expense in the period income, except when arising from a transaction or event that is recognized outside the period income as Other Comprehensive Income (OCI) or an item directly recognized in stockholders' equity.

Deferred income tax is recorded based on the comprehensive asset-and-liability method, which consists of recognizing deferred tax on all temporary differences between the accounting and tax values of assets and liabilities expected to be materialized in the future at rates enacted in the tax provisions effective at the date of the financial statements. See Note 14.

j. Deferred Employees' Statutory Profit Sharing (ESPS)

Deferred ESPS is recognized under the comprehensive asset-and-liability method, which consists in recognizing a deferred ESPS for all differences between accounting and tax values of the assets and liabilities in which their payment or recovery is likely.

ESPS current and deferred is presented in the income statement under operative expenses.

k. Employees' Benefits

Employees' benefits granted by the Company to its employees, including the benefit plans are described as follows:

Direct benefits (salary, overtime, vacation, holidays, compensated absences payments, etc.), are recognized in income as they accrue and their corresponding liabilities are expressed at nominal value since they are short-term. Compensated absence payments based on the legal or contractual provisions, are non-cumulative.

Post-employment benefits are cumulative remunerations giving place to future benefits for employees, offered by the Company in exchange of current employee's services, whose right is granted to the employee during its working relationship and is acquired by the employee and/or beneficiaries at retirement from the entity and/or upon reaching the retirement age or another eligibility condition. The Company provides.

Post-employment benefits are classified as:

Definite contribution plans: these are pension plans through which the Company pays fix contributions to a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund has not enough assets to pay all employees those benefits related to their service in current and previous periods. Contributions are recognized as expenses for employee benefit on the date that the obligation of the contribution is held.

Pension plans for definite benefits: are plans where the entity's responsibility ends up to the settlement of those benefits and whose amounts are determined based on a formula or a scheme stated in the benefit plan itself (benefits for seniority premiums the employee will receive at retirement, pensions, etc.), depend on one or more factors, such as employee's age, years of service and compensation.

Multi-employer plans are define contribution or define benefit plans (other than government plans) in which: a) all assets contributed by various entities that are not under common control are joint; b) those assets are used to provide employee benefits of more than one entity, taking into account that both contributions and benefit levels are determined without regard the identity of the entity or employees covered by the plan, and c) liabilities are individually assumed in each of the entities, taking into account the employees covered by the plan.

Liability recognized in the statement of the financial position regarding the defined benefit plans is the present value of the Defined Benefit Obligation (OBD by its Spanish acronym) at the date of the statement of the financial position. OBD is calculated annually by external specialists, using the method of projected unit cost.

The present value of OBD is determined by discounting estimated future cash flows using discount rates in accordance with MFRS D-3, which are denominated in the currency in which benefits will be paid, and have maturity approximating the terms of the pension liability.

Termination benefits were analyzed in accordance to the Company's accounting policies and payments made, by which Management determined that these payments are non-cumulative and without preexisting conditions, thus they are considered termination benefits and will be recognized when the event takes place.

They were analyzed in accordance with the Company's policies and payments made, by which Management determined, these payments represent pre-existing conditions and are considered cumulative benefits, thus they are recognized ad post-employment benefits. They are payable when the working relationship is terminated by the Company before the normal retirement date or when an employee voluntarily accepts the termination of the employment relationship in exchange of these benefits. The Company recognizes termination benefits at the earliest of the following dates: a) when the Company is no longer able to withdraw the offering of these benefits, and b) at the time the Company recognizes costs for a restructuring involving the payment of termination benefits.

The Company provides short-term employee benefits, which include wages, salaries, annual compensation and bonuses, payable over the next 12 months.

The Company determines the net financial expense (revenue) applying the discount rates to the net defined benefit liability (asset). See Note 12.

l. Stockholders equity

Capital stock, legal reserves, retained earnings are expressed at historical cost.

The net premium in placement of shares represents the difference in surplus between the payment for subscribed shares and their nominal value. See Note 13.

m. OCI

The OCI is comprised of income from the translation of remeasurement related to employees' benefits as well as income tax related to OCI. OCI represents revenues, costs and expenses while already accrued, are pending realization which is expected in the medium term and its value may change due to changes in the fair value of assets or liabilities that gave rise to them, so it may not come to realization in part or in full. OCI is recycled when it is no longer realized and recognized as a separate component in stockholders' equity to be recognized in net profit in the period in which the asset or liability that gave rise to take place.

n. Presentation of costs, expenses and additional items in the income statement

The Company presents costs and expenses in the income statement under the classification criterion based on the function of items, which has as its key feature separating the cost of sales from other costs and expenses based on the nature of items, as it breaks down the categories of costs and expenses, taking into account the specific nature of the type of cost or expense of entity. Additionally, for a better analysis of the financial position, the Company has considered necessary to show the amount of profit (loss) separately in the income statement, because such information is a common practice in the industry the entity belongs to. See Note 16.

o. Revenue recognition

Revenue from sale of goods and provision of services in the normal course of the Company's operations is recognized at the fair value of the consideration received or receivable. Revenue is shown net of value added tax, rebates and discounts. See Note 15.

Revenue by the sale of goods is recognized in the income statement when the overall following requirements are met: a) the goods' risk and benefits were transferred to the buyer and there is no significant control on any of them; b) the Company does not retain for itself any ongoing involvement in the current management of the sold goods, the degree usually associated to the property, nor retains the effective control on them; c) the amount of revenue, costs incurred or to be incurred are reliably determined, and d) the Company is likely to receive economic benefits associated to the sale.

p. Other allowance for revenue

Allowance for discounts and returns are recognized based on studies made by the Company's Management and considered sufficient to absorb losses. Applications to such allowance are recognized.

q. Exchange gain (loss)

Transactions in foreign currencies are initially recorded at record currency applying the exchange rates prevailing at the date of their operation. Assets and liabilities denominated in such currencies are translated at the exchange rate prevailing at the date of the statement of the financial position. Exchange gain or loss arising from fluctuations in the exchange rates between transaction and settlement dates, or valuation at the period closing are recognized in the comprehensive income statement as they accrue, as a component of comprehensive financing income (loss), with exception of those exchange differences that are capitalized with other Comprehensive Financing Income (CIF) components in the cost of qualifying assets.

Note 4 - Accounting estimates:

The Company and its subsidiaries perform estimates and projections about future events to recognize and measure certain financial statement items. The resulting recognized accounting estimates may differ from actual results or events. Estimates and projections that have a significant risk of giving rise to material adjustments on assets and liabilities recognized during next year are detailed below.

Labor benefits

The present value of the pension obligations depends on the number of assumptions that are determined on an actuarial basis using a number of assumptions. Any changes to these assumptions would affect the liability recognized.

At year-end, the Company estimates the discount rate for determining the present value of estimated future cash flows to settle the pension obligations, based on interest rates of high quality corporate bonds, denominated in the same currency as pension benefits and that have similar terms to maturity. Other assumptions used to estimate pension obligations are based on current market conditions.

The main assumptions used were as follows:

	March 31,	
	2018 (%)	2017 (%)
Discount rate	7.88	7.90
Salary increase rate	5.57	5.31
Minimum salary increase rate	3.76	4.27
Inflation rate	3.50	3.75

Assumptions regarding future mortality are based on public statistics and past experience.

The average expected life in years of an employee retired at the age of 65 is more than 75%.

Note 5 - Foreign currency position:

At March 31, 2018 and 2017, the Company had the monetary assets and liabilities in US dollar (Dlls.).

	March 31,	
	2018	2017
Assets	Dlls. 591,841	Dlls. 917,527
Liabilities	(12,224,165)	(13,339,396)
Net Liabilities	(Dlls. 11,632,324)	(Ps 12,421,869)

At March 31, 2018 and 2017, the exchange rate was Ps18.3445 and Ps18.7079 per US dollar, respectively. At the date of issuance of these audited financial statements, the exchange rate was Ps19.3539 per US dollar.

Note 6 - Cash and cash equivalents:

Cash and cash equivalents balance at March 31, 2018 and 2017, is mainly comprised by cash, bank deposits, foreign currency balances and temporary investments, all these are high liquidity and are subject to insignificant risks of changes in value. The integration of such balance is shown as follows:

	March 31,	
	2018	2017
Cash	Ps 8,000	Ps 8,000
Bank deposits	39,123,420	12,080,529
Temporary investments	27,857,254	45,497,383
	Ps 66,988,674	Ps 57,585,912

At March 31, 2018 and 2017, the Company has not restricted cash or cash equivalents.

Note 7 - Analysis of inventories:

The summary of inventories as shown as follows:

	March 31,	
	2018	2017
Raw material	Ps 101,821,965	Ps 98,709,292
Work in process	49,572,987	8,671,072
Finished goods	46,054,685	36,433,819
	197,449,637	143,814,183
Allowance for decrease in value and expired items	(11,285,805)	(9,167,668)
	Ps 186,163,832	Ps 134,646,515

Note 8 - Balance and transactions with related parties:

As mentioned in Note 1, the Company is a subsidiary of Lupin Atlantis Holdings with which it has a business relationship because it has financed the Company's operations.

a. Main balances with related parties at March 31, 2018 and 2017, are shown as follows:

	March 31,	
Payable:	2018	2017
Lupin Latam, Inc.	Ps 5,106,320	Ps 3,585,907
Lupin Limited	(22,400)	789,872
Lupin Atlantis Holdings, S. A.	-	30,543,214
Lupin Inc.	-	3,344,364
	Ps 5,083,920	Ps 38,263,357

b. Balances payable long term to Lupin Atlantis Holdings, S. A. (controlling company) as of March 31, 2018 and 2017, is comprised as follows:

	March 31,	
	2018	2017
Loan (1)	Ps 206,686,950	Ps 210,781,367
Interest payable	2,783,915	2,961,665
	Ps 209,470,865	Ps 213,743,032

(1) On October 1, 2014, the Company entered into a loan up to Dlls. 15,000,000, of unsecured credit line payable to Lupin Atlantis Holdings, S. A. (Controlling Company) from which Dlls. 13,268,826 have been disposed as of December 31, 2014, bearing annual interest rate of 6M Dlls. LIBOR + 500BPS. The Company may, at any time and without penalty or premium, paid off or part of the principal amount, however with a minimum amounts of Dlls. 500,000 per repayment. On October 2015 the Company made a repayment for Dlls. 2,000,000.

c. During the years ended at March 31, 2018 and 2017, the Company carried out the following operations with related parties:

	March 31,	
Expenses:	2018	2017
Expenses for services received from:		
Lupin Latam INC	Ps 17,398,002	Ps 8,347,254
Lupin INC	-	3,816,748
		17,398,002
	12,164,002	
Interest expense to:		
Lupin Atlantis Holdings, S. A.	11,283,334	11,679,392
ESOP Cost:		
Lupin Limited	264,298	1,302,210
Licensing fees paid to:		
Lupin Atlantis Holdings, S. A.	-	30,996,000
Maintenance, support services and reimbursements from:		
Lupin Limited	1,782,553	3,045,171
Total expenses	Ps 30,728,187	Ps 59,186,775

Note 9 - Property, machinery and equipment:

The detail of this item is shown as follows:

	March 31,		Depreciation annual rate
Components subject to depreciation	2018	2017	(%)
Buildings	Ps 107,062,216	Ps 107,007,261	5
Machinery and equipment	91,975,360	90,758,575	10
Transportation equipment	26,148,631	21,071,069	25
Computer equipment	8,433,302	7,995,621	30
Office furniture and fixtures	4,459,114	4,758,984	10
	238,078,623	231,591,510	
Less - Accumulated depreciation	(116,501,511)	(103,020,915)	
	121,577,112	128,570,595	
Components not subject to depreciation			
Land	126,418,684	126,418,684	
Fixed assets under construction	54,827,885	29,986,293	
	Ps 302,823,681	Ps 284,975,572	

The depreciation recorded in the results of 2018 and 2017, amounts to Ps17,585,453 and Ps14,950,610 respectively.

Note 10 - Intangible assets:

At March 31, 2018 and 2017 is comprised as follows:

	Amortization term in years	March 31, 2018	2017
Licenses and trademarks [1]	10	Ps 21,943,120	Ps 20,400,000
Other (sanitary licenses)	20	2,616,823	2,249,905
		24,559,943	22,649,905
Accumulated amortization		(2,210,000)	(170,000)
		Ps 22,349,943	Ps 22,479,905

The amortization recorded in the income statement in 2018 and 2017, amount to Ps2,040,000 and Ps170,000, respectively; which are recognized in the income statement within cost of sale and administrations expense.

(1) On February 21, 2017, the Company entered into a contract with Innovaciones Biomedicas y Tenologicas, S. A. de C. V., for the transferring of certain licenses and trademarks rights.

Note 11 - Analysis of liability provisions:

The analysis of the most significant provisions is presented as follows:

	Balances as of March 31, 2017	Increases	Applications	Balances as of March 31, 2018
Short term:				
Fees	Ps 6,869,202	Ps 31,156,852	(Ps 26,539,027)	Ps 11,487,027
Direct benefits to employees	5,492,198	4,894,041	(5,626,214)	4,760,025
Advertisement and commissions	1,868,171	12,708,411	(11,117,618)	3,458,964
Lawsuits	1,779,000	-	-	1,779,000
Marketing	2,647,084	13,947,912	(15,829,695)	765,301
Others services	243,757	5,126,491	(4,880,344)	489,904
	Ps 18,899,412	Ps 67,833,707	(Ps 63,992,898)	Ps 22,740,221

Note 12 - Employees' benefits

a. The value of the OBD at March 31, 2018 and 2017, amounted to Ps784,930 and Ps673,248 respectively.

b. The value of plan assets at March 31, 2018 and 2017, amounted to Ps7,223,036 and Ps4,245,721, respectively.

c. The financial position between the OBD present value and the AP fair value and the A/PNBD recognized in the statement of the financial position is presented as follows:

	March 31,	
	2017	2018
Post-retirement benefits	Ps 7,223,036	Ps 4,245,721
Reconciliation of OBD initial and final balances:		
OBD at the beginning balance of the period	4,245,721	4,049,925
Net defined benefit cost	784,930	673,248
Payments	-	(528,018)
Remeasurements	2,192,385	50,566
	Ps 7,223,036	Ps 4,245,721

d. Period Net Cost (CNP, by its Spanish acronym)

An analysis of the CNP by plan type is presented as follows:

	March 31,	
	2017	2018
CNP:		
Present service cost	Ps 359,378	Ps425,241
Net interest on PNBD	433,090	251,897
(Remeasurement recycling)	(7,538)	(3,890)
CNP recognized in net profit of loss	Ps 784,930	Ps673,248

Note 13 - Stockholders' equity:

Capital stock

a. Company's capital stock at March 31, 2018 and 2017, is composed as follows:

Shares	Description	Amount
50,000	Series "A-II", representing the fixed portion of capital stock	Ps 50,000
186,950,000	Series "B-II", representing the unlimited variable portion of the capital stock	186,950,000
187,000,000	Capital stock at March 31, 2018	Ps 187,000,000

[1] Shares issued by the Company, both fixed and variable, will be divide into two series: "A" and "B".

Net income is subject to the legal requirement that at least 5% of the income for each year is intended to increase the legal reserve until it is equal to one fifth of the amount of the capital stock.

Dividends to be paid will be free from income tax if they come from net tax profit account (CUFIN by its Spanish acronym). Any dividends paid in excess of CUFIN and reinvested CUFIN will cause a tax equivalent to 42.86% if they are paid on 2017. The current tax is payable by the Company and may be credited against its income tax of the year or the following two years. Dividends paid coming from profit previously taxed by income tax are not subject to tax withholding or additional tax payment. As of 2014, Income Tax Law sets the obligation of keeping CUFIN with profit generated up to December 31, 2013, and starting another CUFIN with profit generated from January 1, 2014.

The OCI movements of the period represents the result of measurement of actuarial gain as follows:

	March 31,	
	2018	2017
Initial (gain) loss arising from experience adjustments	(Ps 105,773)	(Ps 50,566)
Remeasurement (gain) arising from experience adjustments	2,192,385	(55,207)
Total	Ps 2,086,612	(Ps 105,773)

Note 14 - Income tax:

Income tax of the year is calculated by applying a 30% rate on the taxable profit. In 2018 the tax income differs from the accounting income, mainly in such items cumulative by the time and deducted differently for accounting and tax purposes, by the recognition of inflation effects for tax purposes, as well as such items only affecting either the accounting or tax income.

i. Income tax provision is analyzed as follows:

	Year ended March 31,	
	2018	2017
Current income tax	Ps 63,302,209	Ps 35,771,123
Deferred income tax	(5,152,894)	(8,268,014)
Total income tax under the statement of (comprehensive) income	Ps 58,149,315	Ps 27,503,109

ii. At March 31, 2018 and 2017, the main temporary differences on which the deferred income tax was recognized are analyzed as follows

	March 31,	
	2018	2017
Allowance for doubtful accounts	Ps 3,354,444	Ps 2,906,714
Allowance for inventory obsolescence	11,285,805	9,167,668
Other allowance	15,147,760	12,436,129
Property, plant and equipment	(8,171,943)	(11,923,779)
Employee benefits	7,223,036	4,245,721
Accruals	7,862,782	7,620,765
Deferred revenue	66,271	5,049,808
ESPS	20,931,785	10,103,566
Prepaid expenses	(10,516,343)	(10,304,650)
Deferred ESPS	(2,625,181)	(1,919,838)
	44,558,416	27,382,104
Applicable income tax rate (30%)	30%	30%
Deferred income tax asset net	13,367,525	8,214,631
Deferred income previous year	8,214,631	-
Deferred income tax	(Ps 5,152,894)	Ps 8,214,631

iii. Reconciliation between current and effective income tax rate is as follows:

	March 31,	
	2018	2017
Profit before income tax	Ps 188,086,552	Ps 70,064,692
Current income tax rate	30%	30%
Income tax at legal rate	56,425,966	21,019,408
Plus (less) effect of the following permanent items on income tax:		
Non-deductible expenses	4,197,927	5,102,962
Annual inflation adjustment	503,497	1,512,861
Other items	(2,978,075)	(132,122)
Income tax recognized in income	Ps 58,149,315	Ps 27,503,109
Effective tax recognized in income	31%	39%

Note 15 - Analysis of sales:

An analysis of the sales nature is shown as follows:

	March 31,	
	2018	2017
Sales	Ps 676,317,938	Ps 568,713,642
Returns	(19,898,945)	(24,370,197)
Discounts and rebates	(11,654,147)	(14,570,455)
	Ps 644,764,846	Ps 529,772,990

Note 16 - Analysis of costs and expenses:

An analysis of the nature of relevant costs and expenses classified by function in the income statement is as follows:

	March 31,	
	2018	2017
Costs of sales:		
Raw material purchases	Ps 98,936,487	Ps 81,900,870
Salaries and related cost	45,196,740	43,788,600
Maintenance and other	36,147,042	32,866,192
Depreciation and amortization	9,399,140	8,508,099
	Ps 189,679,409	Ps 167,063,761

	March 31,	
	2018	2017
Selling and distribution expenses:		
Salaries and related cost	Ps 59,029,291	Ps 53,828,584
Promotional and advertising	33,961,117	29,099,198
Maintenance and other	29,615,678	40,053,226
Sales incentives	12,556,258	10,038,625
ESPS	10,785,696	1,507,666
Medical test	10,186,995	5,515,258
Depreciation and amortization	7,271,185	4,107,229
Insurances	2,792,411	1,969,051
Rents	-	27,107
	Ps 166,198,631	Ps 146,145,944
Administrative expenses:		
Salaries and related cost	Ps 42,926,714	Ps 39,671,207
Advice of legal entities	27,652,476	6,575,203
Maintenance and other	9,563,791	17,026,386
ESPS	-	1,766,977
Depreciation and amortization	1,973,464	2,403,967
Insurances	677,218	627,742
Bank charges	574,959	674,359
Deferred ESPS	-	(2,917,711)
	Ps 83,368,622	Ps 65,828,130
Research and development expenses:		
Licensing	Ps 8,983,019	Ps 53,089,635
Salaries and related cost	2,748,987	2,237,302
Maintenance and other	2,502,868	3,073,442
Depreciation	981,664	718,498
ESPS		145,117
	Ps 15,216,538	Ps 59,263,994

Note 17 - Current and deferred ESPS

The Company is subject to the ESPS payment which is calculated applying the procedures established in the Income Tax Law. On January 1st a new Income Tax Law was issued which modifies the procedure for determining the tax base for the calculation of the ESPS, which should be determined based on the provisions of article 9 of the Income Tax Law, in which is tax profit is considered as taxable for income tax purposes, without decreasing ESPS paid nor the amortized tax losses and decreasing the amount of nondeductible exempt wages and historical tax depreciation that would have been determined had there not been immediate deduction of fixed asset in fiscal years prior to 2014.

The taxable base of the ESPS differs from the accounting result mainly because the restated depreciation is recognized for accounting purposes, while for purposes of the current ESPS, the same taxable base as for income tax is recognized, as mentioned in the paragraph above, which produces differences in the time in which some items are accounting cumulative or deducted and, for purposes of the current ESPS as well as for those items only affecting the accounting result or of current ESPS of the year.

Provisions for ESPS in 2018 and 2017, are analyzed as follows:

	March 31,	
	2018	2017
Current ESPS	Ps 18,601,355	Ps 6,748,268
Deferred ESPS	(2,258,455)	1,926,324
Total	Ps 16,342,900	Ps 8,674,592

The main temporary differences on which the deferred ESPS was recognized are analyzed as follows:

	March 31,	
	2018	2017
Allowance for doubtful accounts	Ps 3,354,444	Ps 2,906,714
Allowance for inventory obsolescence	11,285,805	9,167,668
Other allowance	15,147,760	12,436,129
Property, plant and equipment	(8,171,942)	(11,923,779)
Employee benefits	7,223,036	4,245,721
Accruals	7,862,782	7,620,765
Deferred revenue	66,271	5,049,808
Prepaid expenses	(10,516,343)	(10,304,649)
	26,251,813	19,198,371
Applicable ESPS rate	10%	30%
Deferred ESPS calculated	2,625,181	1,919,837
Excess deferred ESPS	1,533,112	-
Deferred ESPS	Ps 4,178,293	Ps 1,919,837

Note 18 - Contingencies and commitments:

Contingencies

i. In the normal course of its operations, the Company is involved in some legal processes. Company's Management considers that the final resolution of these issues will not have a relevant adverse impact on the Company's financial position or in its future results.

ii. The tax authorities are entitled to review tax returns filed by the Company, which could give rise to claims related to interpretation, which in any case, can be contested. At the date of authorization of the financial statements, Company's Management does not have knowledge of any claim about it.

Note 19 - New accounting pronouncements:

The following describes a series of MFRS issued by CINIF during December 2013, 2014, 2016 and 2017, which will take effect in 2017, 2018 and 2019. Those MFRS are not considered to have a significant affectation in the financial information to be presented by the Company.

2019

MFRS D-5 "Leasing". Establishes the valuation, presentation and disclosure standards for leasing through a single accounting model by the lessee. Requires the lessee to recognize from the beginning of the leasing: a) a leasing liability (rents payable at present value), and b) for that same amount, an asset called asset for right of use, which represents their right to use the underlying leased asset.

Modifies the presentation of the statement of cash flows, presenting payments to reduce leasing liabilities within financing activities. Likewise, modifies the recognition of leases on the way back by requiring the seller-lessee to recognize as a sale the rights transferred to the buyer-lessor which are not returned.

2018

MFRS B-17 "Determination of fair value". Establishes the standards for the determination of fair value and its disclosure. States that fair value should use those assumptions that market participants would use when fixing the price of an asset or liability under current market conditions at a given date, including assumptions about risk. Sets that it is necessary to consider the asset or liability being valued, whether it is monetary or if it is being used in combination with other assets or on an independent basis, the market in which the asset or liability will realize, and the proper valuation techniques to determine the fair value of assets and liabilities. Additionally, it is required to maximize the use of relevant and observable input data and minimize unobservable input data.

MFRS C-2 "Investment in financial instruments". Establishes the valuation, representation and disclosure standards for investment in financial instruments. Discards the concept of "intention of acquisition" and utilization of an investment in a debt or equity financial instrument to determine its classification, and removes the categories of instruments held to maturity and available for sale. Adopts the concept of" management's business model of investments" in financial instruments.*

MFRS C-3 "Accounts receivable" Establishes the valuation, presentation and disclosure standards for the initial and subsequent recognition of trade receivables and other receivables in the financial statements of an economic entity. Specifies that the accounts receivable based on a contract represent a financial instrument.*

MFRS C-9 "Provisions, contingencies and commitments". Establishes the valuation, presentation and disclosure standards for liabilities, provisions and commitments, reducing their scope to relocate the matter related to financial liabilities in MFRS C-19. The definition of liability was modified, removing the concept of "virtually unavoidable" and including the term "likely".*

MFRS C-10 "Derivative financial instruments and hedging relationships". Establishes the features a financial instrument should have to be considered as derivative with trading or hedging purposes; defines the rules for presentation and disclosure as well as recognition and valuation for derivative financial instruments including those with hedging purposes and those instruments applicable to hedging transactions structured through derivatives. Also, establishes that embedded derivative financial instruments will not be allowed to be separated when the host instruments is a financial asset; if the hybrid contract amount will be modified the modified amount will be charged and the contract may be designed as hedged item at a net position of income and expenses if this reflects risk management strategy of the entity.

MFRS C-16 "Impairment of receivable financial instruments". Establishes the valuation, accounting recognition, presentation and disclosure standards of impairment losses of receivable financial instruments.*

MFRS C-19 "Payable Financial Instruments" Establishes the valuation, presentation and disclosure standards for the initial and subsequent recognition of receivables, borrowings and other financial liabilities in the financial statements of an economic entity. The concepts of amortized cost to value financial liabilities and the effective interest rate method, based on the effective interest rate, to make such valuation are introduced. Both discounts and costs of issuance of a financial liability are deducted from the liability.*

MFRS C-20 "Receivable Financing Instruments" Establishes the valuation, presentation and disclosure standards for the initial and subsequent recognition of receivable financing instruments in the financial statements of an economic entity that carries out financing activities. Discards the concept of intention of acquisition and holding of financial instruments in the asset to determine their classification. Adopts the concept of management business model.*

* The early application of the following MFRS is allowed as from January 1, 2017, provided they are applied together with MFRS C-2 "Investment in financial instruments", MFRS C-3 "Accounts Receivable", MFRS C-9 "Provisions, contingencies and commitments", MFRS C-16 "Impairment of receivable financial instruments", MFRS C-19 "Payable Financial Instruments" and MFRS C-20 "Receivable Financing Instruments".

<u>Improvements to MFRS 2018</u>

MFRS B-2 "Statement of Cash Flows". It is required to disclose relevant changes that have required or not the use of cash or cash equivalents in liabilities considered as a part of financing activities, preferably presenting a reconciliation between opening and closing balances.

MFRS B-10 "Inflation Effects". It is required to disclose, in addition to the required above, the cumulative amount of the three previous years which include the two previous annual periods and the annual period referred to in the financial statements.

MFRS C-6 “Property, plant and equipment”. It is cleared that the depreciation method based in Revenue is not considered valid, therefore, depreciation based in activity methods are the only ones allowed.

MFRS C-8 “Intangible assets”. Establishes that the use of an intangible assets amortization method based on the income amount related to the use of such assets is not appropriate.

MFRS C-14 “Transfer and Derecognition of Financial Assets”. Points out that the subsequent recognition of a transferred asset must be carried out based on the relative standards, eliminating the previous methodology that established that when the subsequent recognition was made at fair value the effects of the transferred asset were recognized in profit or loss.

Improvements to MFRS 2017

MFRS B-7 “Business acquisitions”. The application of the change to improvements 2017 is modified, thus it should be prospectively applied.

MFRS B-13 “Events subsequent to the date of the financial statements” Establishes that if during the subsequent period (lapse between the date of the financial statements and the date on which they are authorized for issuance to third parties) a debtor entity achieves an agreement to maintain long-term payments for liabilities hired with payment conditions at long term and which it has defaulted, retains the classification of such liability as long-term item at the date of the financial statements.

MFRS B-6 “Statement of the financial position”. See the improvement established in MFRS B-13

MFRS C-4 “Inventory” It is required to disclose in the notes to the financial statements the existence of inventories in custody or for demonstration, as well as commitments made in this respect, including those contracted by maquila inventories.

MFRS C-6 “Property, plant and equipment”. It is required to disclose in the notes to the financial statements the existence of components received for maquila or demonstration, as well as commitments made in this respect, in accordance to the related agreement.

MFRS C-19 “Payable Financial Instruments” See the improvement established in MFRS B-13.

MFRS C-20 “Receivable Financial Instruments”. See the improvement established in MFRS B-13.

MFRS C-11 “Stockholders' equity”. Establishes that costs of listing in a stock exchange that at listing date were already owned by investors and by which the issuer had already received the corresponding funds, should be recognized by the entity in net profit or loss at the time of their accrual, and not in stockholders' equity since they are not considered to be related to an equity transaction of the entity.

Additionally, no profit or loss on the acquisition, relocation, issuance or write-off of entity's own shares should be recognized in the comprehensive income statement.

MFRS D-3 "Employee benefits" Establishes that discount rates to be used in the determination of the present value of long-term labor liabilities must be a free market rate with very little or no credit risk, which represents the value of money over time; consequently, the entity may use indistinctly either the government bond market rate or the high quality corporate bond market rate in absolute terms in a deep market, provided it supports, in the latter case, that it meets all requirements of MFRS.

It also establishes that the difference resulting between plan assets reached by the recognition in the income statement of the interest income estimated during the period and the plan assets fair value at period-end must be recognized, optionally, in other comprehensive income or in net profit or loss at the date of its determination; the entity must be consistent in the recognition of remeasurement.

Mr. Samuel Valadez Landgrave
Finance Director