

Laboratorios Grin, S. A. de C. V.
(subsidiary of Lupin Atlantis Holdings, S. A.)
Audited Financial Statements
March 31, 2019

Laboratorios Grin, S. A. de C. V.
(subsidiary of Lupin Atlantis Holdings, S. A.)
Index
March 31, 2019 and 2018

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Independent Auditor's Report

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 at March 31, 2019, and the related statements of comprehensive income, of changes in equity and of cash flows for the year then ended and notes to the financial statements, including 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, 2019, 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 of the financial statements in Mexico. We have fulfilled our other ethical responsibilities in accordance with these 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 9, 2019

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

Mexican pesos (Note 3)

	March 31		March 31	
	2019	2018	2019	2018
Assets			Liabilities and Stockholders' Equity	
CURRENT ASSETS:			CURRENT LIABILITIES:	
Cash and cash equivalents (Notes 3c. and 6)	Ps 51,456,948	Ps 66,988,674	Trade accounts payable	Ps 75,920,687
Accounts receivable (Note 3d.):			Accrued (Notes 3j. and 11)	18,517,263
Clients, net of allowance for doubtful accounts,			Accounts payable and other accrued expenses	13,628,725
discounts and returns of Ps3,040,211 in 2019	193,623,282	193,503,019	Income taxes payable	-
and Ps3,354,444 in 2018	40,667,798	12,622,589	Employees' statutory profit sharing (Note 18)	9,762,572
Other receivables	285,607,611	273,114,282	Related parties (Note 8)	5,951,744
			Obligations for delivery of products	2,528,293
				<u>66,271</u>
Inventories - Net (Notes 3e. and 7)	198,842,204	186,163,832	Total current liabilities	126,309,284
Advanced payments (Note 3g.)	14,115,917	8,077,489	Long-term debt (Notes 8 and 12)	344,788,751
Total current assets	498,706,149	467,355,603	Employee benefits (Notes 3n. and 13)	12,804,923
Property, plant and equipment - Net (Notes 3f. and 9)	424,537,859	302,823,681	Total liabilities	483,902,958
Intangible assets-Net (Notes 3h. and 10)	19,255,737	22,349,943	STOCKHOLDERS' EQUITY:	
Deferred income taxes (Notes 3l. and 15)	11,796,246	13,367,525	Capital stock (Notes 3o. and 14)	187,000,000
Employees' statutory profit sharing			Legal Reserve	37,400,000
(Notes 3m. and 18)			Retained earnings and other capital accounts	257,080,501
			Other comprehensive income	(8,003,558)
Total assets	Ps 957,379,901	Ps 810,075,045	Total stockholders' equity	473,476,943
			Total liabilities and stockholders' equity	Ps 957,379,901
				<u>Ps 810,075,045</u>

The accompanying twenty attached notes are integral part of these financial statements, which were authorize for their issuance on May 9, 2019, by the officer underwriting below.

Mr. Samuel Valadez
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,	
	2019	2018
Net sales (Notes 3r. and 16)	Ps 677,522,617	Ps 644,764,846
Cost of sales (Notes 3s. and 17)	<u>255,973,752</u>	<u>189,679,409</u>
Gross profit	<u>421,548,865</u>	<u>455,085,437</u>
Expenses (Notes 3q. and 17)		
Selling and distribution	211,987,111	166,198,631
Administrative	95,651,610	83,368,622
Research and development	<u>14,970,083</u>	<u>15,216,538</u>
Total expenses	<u>322,608,804</u>	<u>264,783,791</u>
Operating income	<u>98,940,061</u>	<u>190,301,646</u>
Comprehensive financing result:		
Interest expense - Net	20,759,776	7,746,815
Foreign exchange loss - Net	<u>14,404,904</u>	<u>(5,531,721)</u>
Comprehensive financial results - Net	<u>35,164,680</u>	<u>2,215,094</u>
Profit before income tax	63,775,381	188,086,552
Income tax (Note 15)	<u>26,635,221</u>	<u>58,149,315</u>
Net income	37,140,160	129,937,237
Other comprehensive income		
Remeasurements of defined benefit liability	<u>(5,916,946)</u>	<u>(2,192,385)</u>
Comprehensive (loss) income for year	<u>Ps 31,223,214</u>	<u>Ps 127,744,852</u>

The accompanying twenty attached notes are integral part of these financial statements, which were authorize for their issuance on May 9, 2019, by the officer underwriting below.

Mr. Samuel Valadez
Finance Director

Laboratorios Grin, S. A. de C. V.
(subsidiary of Lupin Atlantis Holdings, S. A.)
Statements of Changes in Stockholders' Equity
(Notes 2, 3 and 14)

Mexican pesos (Note 3)

<u>Concept</u>	<u>Capital stock</u>	<u>Legal Reserve</u>	<u>Earnings</u>	<u>Subtotal</u>	<u>Other comprehensive income</u>	<u>Total stockholders' equity</u>
Balance at March 31, 2017	Ps 187,000,000	Ps 37,400,000	Ps 90,003,104	Ps 314,403,104	Ps 105,773	Ps 314,508,877
Net profit of the year 2018			<u>129,937,237</u>	<u>129,937,237</u>	<u>(2,192,385)</u>	<u>127,744,852</u>
Balances at March 31, 2018	187,000,000	37,400,000	219,940,341	444,340,341	(2,086,612)	442,253,729
Net profit of the year 2019				<u>37,140,160</u>	<u>(5,916,946)</u>	<u>31,223,214</u>
Balances at April 1, 2019 (Notes 3l. and 14)	<u>Ps 187,000,000</u>	<u>Ps 37,400,000</u>	<u>Ps 257,080,501</u>	<u>Ps 481,480,501</u>	<u>(Ps 8,003,558)</u>	<u>Ps 473,476,943</u>

The accompanying twenty notes are integral part of these financial statements, which were authorize for their issuance on May 9, 2019, by the officer underwriting below.

Mr. Samuel Valadez
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,	
	2019	2018
Operating activities		
Profit before income tax	Ps 63,775,381	Ps188,086,552
Investing activities related items:		
Depreciation and amortization	21,276,620	19,625,453
Period Net Cost (CNP)	5,273,281	784,930
Loss on sale of fixed assets	(1,746,946)	(472,000)
Interest income	(1,427,416)	(2,707,129)
Interest expense	22,187,192	11,283,334
Deferred employees' statutory profit sharing	1,094,385	(2,258,457)
Unrealized foreign exchange loss	(7,630,230)	(4,272,167)
Subtotal of item related to investing activities net cash flows	102,802,267	104,146,383
(Increase) decrease in:		
Accounts receivable	20,154	(47,813,272)
Other accounts receivable	(27,901,990)	14,460
Inventories - Net	(12,678,372)	(51,517,317)
Prepayments	(5,281,753)	(227,442)
Trade accounts payable	33,986,824	1,795,735
Accrued expenses	(46,883,050)	28,957,123
Accruals	(4,222,958)	3,840,809
Income taxes paid	(25,063,942)	(63,302,209)
Employees' statutory profit sharing	(11,169,213)	10,828,219
Employees' benefits	(335,059)	784,930
Related parties	867,824	(33,179,437)
Obligations for delivery of products	2,462,022	(4,983,537)
Net cash flows from operating activities	1,329,473	54,483,648
Investing activities		
Acquisition of property, plant and equipment	(141,567,648)	(35,849,422)
Acquisitions of intangible assets		(1,543,120)
Proceeds from sale of equipment	2,518,109	887,861
Interest received	1,427,416	2,707,129
Net cash flows from investing activities	(137,622,123)	(33,797,552)
Cash surplus to be used in financing activities	(136,292,650)	20,686,096
Financing activities		
Long-term liabilities	(22,187,192)	(11,283,334)
Bank loans and long-term loans	142,948,116	-
Financing activities net cash flows	120,760,924	(11,283,334)
Net increase (decrease) in a cash and cash equivalents	(15,531,726)	9,402,762
Cash and cash equivalents at the beginning of year	66,988,674	57,585,912
Cash and cash equivalents at end of year (Notes 3c. and 6)	Ps 51,456,948	Ps 66,988,674

The accompanying twenty notes are integral part of these financial statements, which were authorize for their issuance on May 9, 2019, by the officer underwriting below.

Mr. Samuel Valadez
Finance Director

Laboratorios Grin, S. A. de C. V.
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Notes to the Financial Statements
March 31, 2019 and 2018

Figures expressed in Mexican pesos

Note 1 - History and Company's 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)

As of January 1, 2018, the Company retrospectively and prospectively adopted the following MFRS and Improvements to MFRS, issued by Mexican Financial Reporting Standards Board (CINIF, by its Spanish acronym), which became effective as of the aforementioned date. It is considered that no relevant effects over the financial information presented by the Company arise from such MFRS and Improvements.

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 and minimize unobservable input.

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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-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”.

MFRS D-1 “Revenue for contracts with customers”. Establishes the valuation, presentation and disclosure standards for revenue incurred in to obtain or fulfil with contracts with customers. Establishes the most significant aspects for the recognition of revenue through the transfer of control, identification of performance obligations in a contract, allocation of the transaction price and recognition of collection rights. This MFRS removes the supplementary application of the IAS 18 “Revenue” and its interpretation as established in MFRS A-8 “Supplementary application”.

MFRS D-2 “Costs for contracts with customers”. Establishes the valuation, presentation and disclosure standards for costs arising from contracts with customers. Establishes the regulation related to the recognition of costs of contracts with customers, it also includes the accounting treatment of costs related to contracts for construction and manufacturing of capital goods, including costs related to contracts with customers. This MFRS, together with MFRS D-1 “Revenue for contracts with customers”, revokes Bulletin D-7 “Contracts for construction and manufacturing of some capital goods” and IFRIC-14 “Contracts for construction, sale and provision of services related to real state”.

Improvements to MFRS 2019

MFRS B-9 “Interim financial reporting”. It is required to disclose information regarding the fair value of financial instruments held to collect principal and interest and payable financial instruments, as set in MFRS C-20 and C-19, respectively; also, it establishes specific events and transactions, where their disclosure is required if they are considered relevant. On the other hand, it is required to disclose the breakdown of revenue from contracts with customers required in MFRS D-1 “Contracts with customers”.

Improvements to MFRS 2018

MFRS B-2 “Statement of cash flows”. It is required to disclose relevant changes, whether have required or not the use of cash or cash equivalents in liabilities considered part of financing activities, preferably presenting a reconciliation of initial and end balances.

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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.

For the adoption of MFRS D-1, the Company has decided to apply the modified retrospective approach, which recognizes the adjustments of the initial application effect (January 1, 2018) on the retained earnings of financial statements as of December 31 2018, without restating previous comparative periods and applying the new rules to contracts in force as of January 1, 2018 or those that, even if they come from previous years, remain in effect at the date of initial application.

Under the modified retrospective approach, the Company has used the practical expedient allowed by MFRS D-1, for all contract modifications made before the beginning of the first period presented; thus, the Company shows the cumulative effects of such modifications as follows:

- i. Identifying performance obligations satisfied and unsatisfied.
- ii. Determining the transaction price.
- iii. Allocating the transaction price to satisfied and unsatisfied performance obligations.

Based on these practical expedients, it has been determined that the qualitative impacts for using this method are not significant.

Financial statements authorization

The accompanying financial statements and their notes were authorized for their issuance on May 6, 2019 by Samuel Valadez 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.

- a. Recording, functional and reporting currency

Because the recording, functional and reporting currencies of the Company are Mexican peso, any translation process was not needed.

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b. 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, 2019 and 2018, are stated in historical Mexican pesos.

Inflation rates are shown below:

	<u>March 31,</u>	
	<u>2019</u>	<u>2018</u>
	(%)	(%)
Annual inflation rate	4.00	5.04
Cumulative in the last three years (not considering base year)	12.99	11.09
Cumulative in the last three years (considering base year)	14.39	12.99

c. 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.

d. Accounts receivable and other receivables

Accounts receivable are recognized when the good or service is accrued, that is, when control has been transferred in accordance with the contract entered into with customers. Accounts receivable are initially valued at the price of the transaction based on the contracts with customers and subsequently at the price of the transaction pending collection minus bonuses, discounts or refunds and the allowance for credit losses, if applicable.

When collection of accounts receivable 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.

Bonuses, discounts and refunds are recognized as part of the balance of accounts receivable when contractually, either at the time of sale or when certain subsequent circumstances are met, there is a right to take them. When subsequent circumstances are expected to occur, an allowance is recognized and presented as part of the net profit within the comprehensive income statement.

Existing expected credit losses, as well as differences arising from cancellation such credit losses are presented within expenses line item. Such losses are determined individually.

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The allowance for expected credit losses is determined considering the probability of default and the severity of the loss of accounts receivable based on the historical experience, current conditions and reasonable forecasts observed in their behavior.

Accounts that are considered uncollectible are canceled when all means of payment have been legally exhausted and/or when there is a practical impossibility of collection.

Losses generated by other accounts receivable, as well as the reversals thereof, are presented within the item to which said accounts receivable relate.

e. Inventories

At March 31, 2019 and 2018, 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.

Costs to obtain or fulfil a contract with a customer that have been incurred to generate future income with the customer are recognized within the inventory item; these costs do not include profit margins or indirect expenses not attributable to the services that are normally considered in the price. Based on the moment in which they are applied to the net profit or loss, they are classified as short or long terms, as appropriate.

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.

f. Property, plant and equipment

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

Therefore, at March 31, 2019 and 2018, 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.

Property, plant and equipment are subject to annual impairment testing only when impairment indicators are identified; accordingly, these are expressed at their modified historical cost, less cumulative depreciation and, in its case, impairment losses.

g. 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.

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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.

h. 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:

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.

i. Suppliers

This item includes obligations with suppliers for purchases of goods or services acquired in the normal course of Company's operations. They are initially recognized at the transition price for the goods and services received and tax, and any other amount the supplier has transferred to the entity on behalf of third parties. Subsequent recognition is at amortized cost, which must include, among others, the increases due to the cash interest accrued and the decreases for the principal and interest payments and, where appropriate, the effect of any write-off obtained on the amount payable. When the payment term does not exceed one year, its amortized cost should not be determined. 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.

j. 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.

k. Payable financial instruments

Includes financial instruments that the entity assumes in the normal course of its operations for loans received from credit institutions and other entities.

They are initially recognized at transaction price net of the transaction costs incurred, commissions and interest, and subsequently its valuation is made at amortized cost, which must include, among others, the increases for the accrued effective interest, the decreases for principal and interest payments, where appropriate, the effect of any write-off obtained on the amount to be paid. The effective interest is recognized in the net profit or loss of the period in which it accrues, unless it qualifies to be capitalized in an asset, based on the provisions of MFRS D-6 "Capitalization of comprehensive financing income (loss)".

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Payable financial instruments denominated in foreign currency or in any other exchange unit are initially recognized considering the provisions for transactions in foreign currency in MFRS B-15 "Foreign currency translation", the modifications in their amount derived from the variations in exchange rates must be recognized in the net income or loss of the period and their subsequent recognition is considered based on the amortized cost at the date of the financial statements.

The Company holds payable financial instruments that were designated from their initial recognition as irrevocable based on fair value, whose recognition will be through net profit or loss based on the business model.

Payable financial instruments are derecognized from the statement of the financial position only when they are extinguished due to compliance with the obligation, whether due to the transfer, settlement or expiration of the same. The difference between the carrying amount (or part thereof) derecognized and the carrying amount of the assets delivered is recognized in the net income or loss of the period.

l. 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 15.

m. 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. See Note 18.

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

n. 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. The right to access these benefits usually depends on whether the employee has worked upon the retirement age and completed a minimum period of 35 years of service.

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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 when the contribution is due.

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) inwhich: 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.

Discount rate used to determine the present value of working liability is the government band rate.

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 13.

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o. 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 14.

p. 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.

q. 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 . See Note 17.

r. 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 16.

Considering the nature of the products sold by the Company, sales are recognized when (control of the products is transferred, when the products are delivered to the customer has total discretion over the channel and the price to sell the products, and there is no unfulfilled obligation that may affect the customer's acceptance of the product, the delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and the customer has accepted the products in accordance with the sales contract, the acceptance provisions have expired, or the Company has objective evidence that all acceptance criteria have been met.

When there is an unconditional right to receive a consideration before the control over a good and/or service is transferred to the customer , a contract liability is recognized; when the payment is received, an advance payment from customers is recognized and it must be derecognized (and recognize an income) when it transfers control over the goods or services and, thereby, satisfies its performance obligation.

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.

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s. Cost of contracts with customers

Management recognizes as assets costs directly related to obtain or fulfil a contract, since it considers that these can be recovered. The costs to obtain a contract or to fulfil a contract (direct labor, direct materials, indirect costs assigned to them are related to their obtaining or other costs directly associated with their obtaining, they are determined considering that they can relate directly to a specific contract, generate or improve resources of the entity that will be used to satisfy (or to continue satisfying) obligations to be fulfilled in the future of a current contract, are recoverable and can be quantified reliably.

Impairment losses are recognized within the net income or loss of the period, when the carrying amount of an asset exceeds the amount pending recognition as income in exchange for the goods or services to which the asset relates, less, costs directly related to the supply of those goods or services that have not yet been recognized as expenses.

t. 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.

Income tax

The Company is subject to tax on income [in many jurisdictions]. Significant judgments are required to recognize the current and deferred income tax. There are many transactions and calculations for which accurate tax determination is uncertain. The Company recognizes a liability for those matters observed in tax audits which will likely result in the determination of a tax additional to that originally current. When the outcome of these processes is different to the estimated liability, differences are recognized in deferred and/or current income tax.

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.

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The main assumptions used were as follows:

	<u>March 31,</u>	
	<u>2019</u>	<u>2018</u>
	(%)	(%)
Discount rate	7.88	7.88
Salary increase rate	5.57	5.57
Minimum salary increase rate	3.76	3.76
Inflation rate	3.50	3.50

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%.

Allowance for expected credit losses

To measure credit loss estimates, accounts receivable and assets for contracts have been grouped according to the characteristics of shared credit risk and days past due. The Company has evaluated the expected credit loss based on the life of the financial instruments held to collect principal and interest, conditional accounts receivable, so it has not determined the stages of the credit risk in which the financial instruments held to collect principal and interest is located.

The allowance for credit losses as of March 31, 2019 and 2018 was determined in the following manner, both for accounts receivable and assets for contracts.

<u>March 31, 2019</u>	<u>Current</u>	<u>Over 30 days due</u>	<u>Over 60 days due</u>	<u>Over 90 days due</u>	<u>Over 120 days due</u>	<u>Total</u>
% allowance for credit losses	0.73%	0.69%	1.39%	3.66%	100.00%	1.55%
Gross carrying amount - accounts receivable	\$ 164,614,242	\$ 22,805,648	\$ 522,423	\$ 7,308,748	\$ 1,412,431	\$ 196,663,493
Allowance for credit losses	1,196,583	156,285	7,242	267,670	1,412,431	3,040,211
<u>March 31, 2018</u>	<u>Current</u>	<u>Over 30 days due</u>	<u>Over 60 days due</u>	<u>Over 90 days due</u>	<u>Over 120 days due</u>	<u>Total</u>
% allowance for credit losses	0.68%	0.93%	0.06%	2.97%	100.00%	1.70%
Gross carrying amount - accounts receivable	\$ 163,648,346	\$ 20,952,673	\$ 263,190	\$ 10,535,230	\$ 1,728,347	\$ 197,127,786
Allowance for credit losses	1,117,125	195,848	161	312,963	1,728,347	3,354,444

The allowance for expected credit losses expected credit losses of accounts receivable and assets for contracts is based on assumptions about the probability of default and the severity of the expected loss.

The Company uses judgment to make these assumptions; selecting key and input for the calculation of said allowance based on the history, the existing market conditions and the prospective estimates at the end of each reporting period.

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Note 5 - Financial risk management:

At December 31, 2018 and 2017, the Company is exposed to the following financial risks as a result of its operations:

Financial risk management is done through financial department, according to the policies approved by the Board of Directors. The entity identifies, assesses and hedged financial risks in close cooperation with its subsidiaries. The Board of Directors has approved general policies written in connection with the financial risk management, as well as policies for specific risks, such as, exchange rate risk, interest rate risk, credit risk, use of trading and/or hedging derivative financial instruments in accounting terms and of non-derivative financial instruments and investment of treasury surplus.

Risk	Risk exposure arising from	Risk measurement	Risk management
Exchange rate Risk	Future business transactions. Recognized financial assets and liabilities not denominated in monetary units of Mexico	Cash flow forecasts. Sensitivity analysis	Foreign currency forward contracts and foreign currency option contracts. Revision of the natural hedge between assets and liabilities in foreign currency
Liquidity risk	Loans and other liabilities	Cash flow forecasts	Availability of credit lines and loan facilities
Credit risk	Cash and cash equivalents, accounts receivable	Expiry analysis. Credit ratings	Diversification of bank deposits and portfolio. Establishment of credit limits and obtaining letters of credit

Market risk

Exchange rate risk

Exposure

The Company's exposure to foreign exchange rate risk at the end of the reporting period is expressed as follows:

	<u>March 31, 2018</u>		<u>March 31, 2019</u>	
	<u>USD</u>	<u>EUR</u>	<u>USD</u>	<u>EUR</u>
Short term:				
Current assets	<u>9,185</u>	<u>166,950</u>	<u>591,841</u>	<u>-</u>
Current liabilities	2,029,100	-	957,194	-
Long-term liabilities	<u>10,266,971</u>	<u>-</u>	<u>11,266,971</u>	<u>-</u>
	<u>12,296,071</u>	<u>-</u>	<u>12,224,165</u>	<u>-</u>
Net liabilities	12,286,886	-	11,632,324	-
Net assets	<u>-</u>	<u>166,950</u>	<u>-</u>	<u>-</u>

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Instruments used by the Company

The Company operates internationally and is exposed to exchange rate risk, mainly the dollar (USD). The exchange rate risk arises from future business transactions and recognized assets and liabilities denominated in a currency that is not the functional currency of the Company. The risk is measured through a forecast of highly probable expenses in US dollars. The objective of the risk hedges is to minimize the volatility of the cost in the functional currency of the forecasted inventory purchases as highly probable.

Profit is more sensitive to movements in the US dollar exchange rate in 2018 than in 2017, due to the increase in the amount of loans denominated in US dollars. Equity is more sensitive to movements in the US dollar exchange rate in 2018 than in 2017, due to the greater number of foreign currency forwards.

Liquidity risk

A prudent management of liquidity risk implies having enough cash and securities of immediate realization, the availability of financing through an appropriate amount of committed credit lines and the ability to close market positions.

Because of the dynamic nature of the underlying business, the Company's treasury keeps financing flexibility by keeping committed credit lines available.

Management continuously monitors cash flow projections and liquidity requirements ensuring of maintaining sufficient cash and temporary investments to meet operational needs. Generally, this is done locally in the operative companies and according to the limits established by the group. Such limits vary according with the location and consider the market liquidity in which the entity operates. Also the policy on the Company's liquidity management withstand the projection of the cash flows in the main currencies and the consideration of the level of liquid assets necessary to meet such projections; the monitoring of the liquidity reasons of the statement of the financial position concerning the internal and external regulatory requirements and the financing or debt plans.

Exposure

The amounts presented in the following table correspond to the undiscounted cash flows. Outstanding balances within 12 months equal their accounting balances, since the impact of the discount is not significant. 124 For interest rate swaps, cash flows have been estimated using forward interest rates applicable at the end of the reporting period.

Contractual maturity of financial liabilities at March 31, 2019	Less than 6 months	6 - 12 months	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total of contractual cash flows	Carrying amount (asset/liability)
Suppliers	Ps 75,920,688	Ps -	Ps -	Ps -	Ps -	Ps 75,920,688	Ps 75,920,688
Loans	-	-	32,481,616	97,444,848	210,265,995	340,192,457	340,192,457
Total non-derivative	Ps 75,920,688	Ps -	Ps 32,481,616	Ps 97,444,848	Ps 210,265,995	Ps 416,113,145	Ps 416,113,145

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Contractual maturity of financial liabilities at March 31, 2018	Less than 6 months	6 - 12 months	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total of contractual cash flows	Carrying amount (asset/liability)
Suppliers	Ps 41,933,863	Ps -	Ps -	Ps -	Ps -	Ps 41,933,863	Ps 41,933,863
Loans	-	-	-	-	206,686,950	206,686,950	206,686,950
Total non-derivative	<u>Ps 41,933,863</u>	<u>Ps -</u>	<u>Ps -</u>	<u>Ps -</u>	<u>Ps 206,686,950</u>	<u>Ps 248,620,813</u>	<u>Ps 248,620,813</u>

Credit risk

Exposure

Credit risk arises from cash and cash equivalents, accounts receivable from customers.

Although cash and cash equivalents are also subject to impairment requirements, the identified impairment loss is immaterial.

Note 6 - Cash and cash equivalents:

Cash and cash equivalents balance at March 31, 2019 and 2018, 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:

	<u>March 31,</u>	
	<u>2019</u>	<u>2018</u>
Cash	Ps 8,000	Ps 8,000
Bank deposits	33,386,050	39,123,420
Temporary investments	<u>18,062,898</u>	<u>27,857,254</u>
	<u>Ps 51,456,948</u>	<u>Ps 66,988,674</u>

At March 31, 2019 and 2018, the Company has not restricted cash or cash equivalents.

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Note 7 - Analysis of inventories:

The summary of inventories as shown as follows:

	<u>March 31,</u>	
	<u>2019</u>	<u>2018</u>
Raw material	Ps 111,245,537	Ps 101,821,965
Work in process	9,706,226	49,572,987
Finished goods	<u>87,090,414</u>	<u>46,054,685</u>
	208,042,177	197,449,637
Allowance for decrease in value and expired items	<u>(9,199,973)</u>	<u>(11,285,805)</u>
	<u>Ps 198,842,204</u>	<u>Ps 186,163,832</u>

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, 2019 and 2018, are shown as follows:

	<u>March 31,</u>	
<u>Payable:</u>	<u>2019</u>	<u>2018</u>
Lupin Latam, Inc.	Ps 4,210,221	Ps 5,106,320
Lupin Limited	883,446	(22,400)
Medquimica	<u>858,077</u>	<u>-</u>
	<u>Ps 5,951,744</u>	<u>Ps 5,083,920</u>

- b. Balances payable long term to Lupin Atlantis Holdings, S. A. (controlling company) as of March 31, 2019 and 2018, is comprised as follows:

	<u>March 31,</u>	
	<u>2019</u>	<u>2018</u>
Loan ⁽¹⁾	Ps 198,966,711	Ps 206,686,950
Interest payable	<u>2,873,924</u>	<u>2,783,915</u>
	<u>Ps 201,840,635</u>	<u>Ps 209,470,865</u>

- ⁽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

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of 6M Dlls. LIBOR + 5.00 BPS. 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, 2019 and 2018, the Company carried out the following operations with related parties:

	<u>March 31,</u>	
<u>Expenses:</u>	<u>2019</u>	<u>2018</u>
Expenses for services received from:		
Lupin Latam INC	Ps 16,591,328	Ps 17,398,002
Medquimica	<u>2,520,445</u>	<u>-</u>
	19,111,773	17,398,002
Interest expense to:		
Lupin Atlantis Holdings, S. A.	11,760,571	11,283,334
ESOP Cost:		
Lupin Limited	742,943	264,298
Licensing fees paid to:		
Lupin Atlantis Holdings, S. A.		-
Maintenance, support services and reimbursements from:		
Lupin Limited	<u>2,193,871</u>	<u>1,782,553</u>
Total expenses	<u>Ps 33,809,158</u>	<u>Ps 30,728,187</u>
Income:		
Lupin Atlantis Holdings, S. A.	Ps 151,387	Ps -
Lupin Limited	<u>45,835</u>	<u>-</u>
Total income	<u>Ps 197,222</u>	<u>Ps -</u>

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Note 9 - Property, machinery and equipment:

The detail of this item is shown as follows:

	<u>March 31,</u>		Depreciation
<u>Components subject to depreciation</u>	<u>2019</u>	<u>2018</u>	<u>annual rate</u> <u>(%)</u>
Buildings	Ps 107,062,216	Ps 107,062,216	5
Machinery and equipment	91,975,360	91,975,360	10
Transportation equipment	32,901,207	26,148,631	25
Computer equipment	8,435,183	8,433,302	30
Office furniture and fixtures	<u>4,459,113</u>	<u>4,459,114</u>	10
	244,833,079	238,078,623	
Less - Accumulated depreciation	<u>(129,579,058)</u>	<u>(116,501,511)</u>	
	115,254,021	121,577,112	
<u>Components not subject to depreciation</u>			
Land	126,418,684	126,418,684	
Fixed assets under construction	<u>182,865,154</u>	<u>54,827,885</u>	
	<u>Ps 424,537,859</u>	<u>Ps 302,823,681</u>	

The depreciation recorded in the results of 2019 and 2018, amounts to Ps19,082,308 and Ps17,585,453 respectively.

Note 10 - Intangible assets:

At March 31, 2019 and 2018 is comprised as follows:

	Amortization term <u>in years</u>	<u>March 31,</u>	
		<u>2019</u>	<u>2018</u>
Licenses and trademarks ⁽¹⁾	10	Ps 21,943,120	Ps 21,943,120
Other (sanitary licenses)	20	<u>1,716,929</u>	<u>2,616,823</u>
		23,660,049	24,559,943
Accumulated amortization		<u>(4,404,312)</u>	<u>(2,210,000)</u>
		<u>Ps 19,255,737</u>	<u>Ps 22,349,943</u>

The amortization recorded in the income statement in 2019 and 2018, amount to Ps2,194,312 and Ps2,040,000, respectively; which are recognized in the income statement within cost of sale and administrations expense.

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- (1) On February 21, 2018, 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, <u>2018</u>	<u>Increases</u>	<u>Applications</u>	Balances as of March 31, <u>2019</u>
Short term:				
Fees	Ps 11,487,027	Ps 38,338,620	(Ps 41,530,420)	Ps 8,295,227
Direct benefits to employees	4,760,025	4,303,842	(4,794,363)	4,269,504
Advertisement and commissions	3,458,964	33,216,992	(33,748,059)	2,927,897
Lawsuits	1,779,000	-	-	1,779,000
Marketing	765,301	29,030,696	(29,645,997)	150,000
Others services	<u>489,904</u>	<u>7,383,502</u>	<u>(6,777,771)</u>	<u>1,095,635</u>
	<u>Ps 22,740,221</u>	<u>Ps 112,273,652</u>	<u>(Ps 116,496,610)</u>	<u>Ps 18,517,263</u>

Note 12 - Analysis of bank loans:

At March 31, 2019 the Company had the following bank loans:

Long term	Ps 141,225,746
Interests payable to Bank	<u>1,722,370</u>
Total loan and interests payable at long term	<u>Ps 142,948,116</u>

Some Company's bank loans set up certain do and do not covenants, which have been covered at March 31, 2019.

At Mach 31, 2018 and 2017, the Company had authorized bank credit lines hired with Banamex by approximately \$141,225,746 have been commanded and were available.

Note 13 - Employees' benefits:

- The value of the OBD at March 31, 2019 and 2018, amounted to Ps 5,273,281 and Ps784,930 respectively.
- The value of plan assets (AP, by its Spanish acronym) at March 31, 2019 and 2018, amounted to Ps12,804,923 and Ps7,223,036, respectively.

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- 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:

	Seniority premium March 31,		Termination indemnity March 31,		Total March 31,	
<u>PNBD</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Accumulated Benefit Obligation (ABO)	(Ps 910,155)	(Ps 683,031)	Ps -	Ps -	(Ps 910,155)	(Ps 683,031)
OBD	<u>(2,706,804)</u>	<u>(2,245,184)</u>	<u>(10,098,119)</u>	<u>(4,977,852)</u>	<u>(12,804,923)</u>	<u>(7,223,036)</u>
(Deficit)/Surplus	<u>(Ps 2,706,804)</u>	<u>(Ps 2,245,184)</u>	<u>(Ps 10,098,119)</u>	<u>(Ps 4,977,852)</u>	<u>(Ps 12,804,923)</u>	<u>(Ps 7,223,036)</u>

- d. Reconciliation of defined benefit obligation, plan assets and net/liability for defined benefits

Reconciliation of PNBD initial and final balances:

	Seniority premium March 31,		Termination indemnity March 31,		Total March 31,	
<u>PNBD</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
(Deficit) / Surplus at the beginning of the year	(Ps 2,245,184)	(Ps 1,129,185)	(Ps 4,977,852)	(Ps 3,116,536)	(Ps 7,223,036)	(Ps 4,245,721)
Net Periodic cost	(473,186)	(210,764)	(1,779,929)	(581,704)	(2,253,115)	(702,468)
Payments	469,925	-	6,960,936	-	7,430,861	-
Remeasurements	<u>(458,359)</u>	<u>(905,235)</u>	<u>(10,301,274)</u>	<u>(1,279,612)</u>	<u>(10,759,633)</u>	<u>(2,184,847)</u>
(Deficit) / Surplus at the end of the year	<u>(Ps 2,706,804)</u>	<u>(Ps 2,245,184)</u>	<u>(Ps 10,098,119)</u>	<u>(Ps 4,977,852)</u>	<u>(Ps 12,804,923)</u>	<u>(Ps 7,223,036)</u>

Reconciliation of OBD initial and final balances:

	Seniority premium March 31,		Termination indemnity March 31,		Total March 31,	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
OBD at the beginning of the period	(Ps 2,245,184)	(Ps 1,129,185)	(Ps 4,977,852)	(Ps 3,116,536)	(Ps 7,223,036)	(Ps 4,245,721)
Present service cost	(309,668)	(126,323)	(1,421,431)	(233,055)	(1,731,099)	(359,378)
OBD interest cost	(163,518)	(84,441)	(358,498)	(348,649)	(522,016)	(433,090)
Payment of benefits	469,925	-	6,960,936	-	7,430,861	-
Remeasurements	<u>(458,359)</u>	<u>(905,235)</u>	<u>(10,301,274)</u>	<u>(1,279,612)</u>	<u>(10,759,633)</u>	<u>(2,184,847)</u>
OBD at period-end	<u>(Ps 2,706,804)</u>	<u>(Ps 2,245,184)</u>	<u>(Ps 10,098,119)</u>	<u>(Ps 4,977,852)</u>	<u>(Ps 12,804,923)</u>	<u>(Ps 7,223,036)</u>

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

An analysis of the period net cost by plan type is presented as follow:

	Seniority premium March 31,		Termination indemnity March 31,		Total March 31,	
<u>CNP</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Present service cost	Ps 381,467	Ps 126,323	Ps 2,872,883	Ps 233,055	Ps 3,254,350	Ps 359,378
Net interest on PNDB	213,729	84,441	795,748	348,649	1,009,477	433,090
Remeasurement Recycling	<u>135,283</u>	<u>(2,008)</u>	<u>874,171</u>	<u>(5,530)</u>	<u>1,009,454</u>	<u>(7,538)</u>
CNP recognized in net profit of loss	<u>Ps 730,479</u>	<u>Ps 208,756</u>	<u>Ps 4,542,802</u>	<u>Ps 576,17</u>	<u>Ps 5,273,281</u>	<u>Ps 784,930</u>

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	Seniority premium March 31,		Termination indemnity March 31,		Total March 31,	
	2019	2018	2019	2018	2019	2018
Actuarial gains and losses in obligations GPA at the beginning of the period	Ps 879,112	(Ps 28,131)	Ps1,207,500	(Ps 77,642)	Ps 2,086,612	(Ps 105,773)
Recycling	(71,139)	-	(127,376)	-	(198,515)	-
GPA during the year	458,359	907,243	10,301,274	1,285,142	10,759,633	2,192,385
Settlement	-	-	(4,644,172)	-	(4,644,172)	-
(GPA) at the end of the period	<u>Ps 1,266,332</u>	<u>Ps 879,11</u>	<u>Ps 6,737,226</u>	<u>Ps 1,207,500</u>	<u>Ps 8,003,558</u>	<u>Ps 2,086,61</u>

Note 14 - Stockholders' equity:

Capital stock

- a. Company's capital stock at March 31, 2019 and 2018, is composed as follows:

<u>Shares</u>	<u>Description</u>	<u>Amount</u>
50,000	Series "A-II", representing the fixed portion of capital stock	Ps 50,000
<u>186,950,000</u>	Series "B-II", representing the unlimited variable portion of the capital stock	<u>186,950,000</u>
<u>187,000,000</u>	Capital stock at March 31, 2019	<u>Ps 187,000,000</u>

- 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 (CUFINRE) will cause a tax equivalent to 42.86%. The current tax is payable by the Company and may be credited against its current income tax of the year or the year on which it is paid. The remaining amount may be credited in the following two fiscal years against the tax of the year or against the provisional payments. Dividends paid coming from profit previously taxed by income tax will not be subject to tax withholding or additional tax payment. 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:

	<u>March 31,</u>	
	<u>2019</u>	<u>2018</u>
Initial (gain) loss arising from experience adjustments	Ps 2,086,612	(Ps 105,773)
Remeasurement (gain) arising from experience adjustments	<u>5,916,946</u>	<u>2,192,385</u>
Total	<u>Ps 8,003,558</u>	<u>Ps 2,086,612</u>

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Note 15 - Income tax:

Income tax of the year is calculated by applying a 30% rate on the taxable profit. In 2019 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,	
	2019	2018
Current income tax	Ps 25,063,942	Ps 63,302,209
Deferred income tax	<u>1,571,279</u>	<u>(5,152,894)</u>
Total income tax under the statement of (comprehensive) income	<u>Ps 26,635,221</u>	<u>Ps 58,149,315</u>

- ii. At March 31, 2019 and 2018, the main temporary differences on which the deferred income tax was recognized are analyzed as follows:

	March 31,	
	2019	2018
Allowance for doubtful accounts	Ps 3,040,211	Ps 3,354,444
Allowance for inventory obsolescence	9,199,973	11,285,805
Other allowance	13,567,566	8,576,628
Property, plant and equipment	251,907	(8,171,943)
Employee benefits	12,804,923	7,223,036
Accruals	6,855,583	7,862,782
Deferred revenue	2,528,293	66,271
ESPS	11,565,632	20,931,785
Prepaid expenses	(14,115,917)	(8,077,489)
Deferred ESPS	<u>(3,083,910)</u>	<u>(2,625,181)</u>
	39,320,820	44,558,416
Applicable income tax rate (30%)	<u>30%</u>	<u>30%</u>
Deferred income tax asset net	11,796,246	13,367,525
Deferred income previous year	<u>13,367,525</u>	<u>8,214,631</u>
Deferred income tax	<u>Ps 1,571,279</u>	<u>(Ps 5,152,894)</u>

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

	<u>March 31</u>	
	<u>2019</u>	<u>2018</u>
Profit before income tax	Ps 63,775,381	Ps 188,086,552
Current income tax rate	<u>30%</u>	<u>30%</u>
Income tax at legal rate	19,132,614	56,425,966
Plus (less) effect of the following permanent items on income tax:		
Non-deductible expenses	5,475,255	4,197,927
Annual inflation adjustment	1,504,839	503,497
Other items	<u>522,513</u>	<u>(2,978,075)</u>
Income tax recognized in income	<u>Ps 26,635,221</u>	<u>Ps 58,149,315</u>
Effective tax recognized in income	<u>42%</u>	<u>31%</u>

Note 16 - Analysis of sales:

An analysis of the sales nature is shown as follows:

	<u>March 31,</u>	
	<u>2019</u>	<u>2018</u>
Sales	Ps 728,566,709	Ps 676,317,938
Returns	(20,642,628)	(19,898,945)
Discounts and rebates	<u>(30,401,464)</u>	<u>(11,654,147)</u>
	<u>Ps 677,522,617</u>	<u>Ps 644,764,846</u>

Note 17 - 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:

	<u>March 31,</u>	
	<u>2019</u>	<u>2018</u>
Costs of sales:		
Raw material purchases	Ps 149,623,030	Ps 98,936,487
Salaries and related cost	49,009,238	45,196,740
Maintenance and other	46,290,497	36,147,042
Depreciation and amortization	9,364,402	9,399,140
Employee statutory profit sharing	<u>1,686,585</u>	<u>-</u>
	<u>Ps 255,973,752</u>	<u>Ps 189,679,409</u>

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	<u>March 31,</u>	
	<u>2019</u>	<u>2018</u>
Selling and distribution expenses:		
Salaries and related cost	Ps 67,929,682	Ps 59,029,291
Promotional and advertising	31,237,865	33,961,117
Maintenance and other	66,877,606	29,615,678
Sales incentives	20,592,095	12,556,258
Employee statutory profit sharing	2,236,906	10,785,696
Medical test	9,858,294	10,186,995
Depreciation and amortization	7,067,898	7,271,185
Insurances	3,992,453	2,792,411
Rents	<u>2,194,312</u>	<u>-</u>
	<u>Ps 211,987,111</u>	<u>Ps 166,198,631</u>

	<u>March 31</u>	
	<u>2019</u>	<u>2018</u>
Administrative expenses:		
Salaries and related cost	Ps 43,714,078	Ps 42,926,714
Advice of legal entities	10,423,813	27,652,476
Maintenance and other	30,164,808	9,563,791
Depreciation and amortization	1,795,920	1,973,464
Insurances	998,624	677,218
Employee statutory profit sharing	2,314,132	-
Bank charges	2,994,003	574,959
Products Development	<u>3,246,232</u>	<u>-</u>
	<u>Ps 95,651,610</u>	<u>Ps 83,368,622</u>

Research and development expenses:		
Analytical and Development	Ps 8,935,167	Ps 8,983,019
Salaries and related cost	2,616,684	2,748,987
Maintenance and other	2,465,971	2,502,868
Depreciation	854,088	981,664
Employee statutory profit sharing	<u>98,173</u>	<u>-</u>
	<u>Ps 14,970,083</u>	<u>Ps 15,216,538</u>

Note 18 - Current and deferred ESPS:

The Company is subject to the payment of ESPS, which is calculated by applying the procedures established in article 9 of the Income tax law, in which taxable income for income tax purposes is considered as a tax base, without reducing the ESPS paid of the fiscal year, nor the tax losses applied. Additionally, the non-deductible part of the exempt social security provision referred to in section XXX of article 28 of the Income tax law must be deducted from cumulative income.

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In 2019, the Company determined a ESPS payable of Ps 6,335,796 (ESPS Ps18,601,355 in 2018). ESPS' taxable base differs from the accounting income mainly due to the differences in the time in which some items are accumulated or deducted for accounting purposes, and for the effects of the current ESPS, as well as those items that only affect the accounting income or the current ESPS of the year.

Provisions for ESPS in 2019 and 2018, are analyzed as follows:

	<u>March 31,</u>	
	<u>2019</u>	<u>2018</u>
Current ESPS	Ps 6,335,796	Ps 18,601,355
Deferred ESPS	<u>1,094,383</u>	<u>(2,258,455)</u>
Total	<u>Ps 7,430,179</u>	<u>Ps 16,342,900</u>

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

	<u>March 31,</u>	
	<u>2019</u>	<u>2018</u>
Allowance for doubtful accounts	Ps 3,040,211	Ps 3,354,444
Allowance for inventory obsolescence	9,199,973	11,285,805
Other allowance	13,567,566	15,147,760
Property, plant and equipment	251,907	(8,171,942)
Employee benefits	12,804,923	7,223,036
Accruals	6,855,583	7,862,782
Deferred revenue	2,528,293	66,271
Prepaid expenses	<u>(14,115,917)</u>	<u>(10,516,343)</u>
	30,839,098	26,251,813
Applicable ESPS rate	<u>10%</u>	<u>10%</u>
Deferred ESPS calculated	<u>3,083,910</u>	<u>2,625,181</u>
Excess deferred ESPS	<u>-</u>	<u>1,533,112</u>
Deferred ESPS	<u>Ps 3,083,910</u>	<u>Ps 4,178,293</u>

Note 19 - Contingencies and commitments:

a. 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.

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- 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 20 - New accounting pronouncements:

The following describes a series of MFRS issued by CINIF during December 2017 and 2018, which will take effect in 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.

MFRS B-11 "Disposal of long-lived assets and discontinued operations". Establishes the valuation, presentation and disclosure standards for the disposal of long-lived assets and discontinued operations. Clarifies that assets of a particular class, usually considered non-current by the entity but that are exclusively acquired with the purpose to resale, are not classified as current unless they meet the criteria to be classified as held for sale.

Improvements to MFRS 2019

MFRS B-9 "Interim financial reporting". It is required to disclose information regarding the fair value of financial instruments held to collect principal and interest and payable financial instruments, as set in MFRS C-20 and C-19, respectively; also, it establishes specific events and transactions, where their disclosure is required if they are considered relevant. On the other hand, it is required to disclose the breakdown of revenue from contracts with customers required in MFRS D-1 "Contracts with customers".

Improvements to MFRS 2018

MFRS B-2 "Statement of cash flows". It is required to disclose relevant changes, whether have required or not the use of cash or cash equivalents in liabilities considered part of financing activities, preferably presenting a reconciliation of initial and final 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.

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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.

Mr. Samuel Valadez
Finance Director