



Salles Sainz

Grant Thornton

Financial Statements and Independent auditor's report

Zydus Pharmaceuticals México Service Company,
S. A. de C. V.

December 31, 2017 and 2016

Zydus
dedicated to *life*

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Independent auditor's report

To the Stockholders of:

Zydus Pharmaceuticals México Service Company, S. A. de C. V.:

Opinion

We have audited the accompanying financial statements of **Zydus Pharmaceuticals México Service Company, S. A. de C. V.** (the "Company") which comprise the statements of financial position as of December 31, 2017 and 2016, and the statements of profit or loss, statements of changes in stockholders' equity and statements of cash flows for the years then ended, and notes to the financial statements including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Zydus Pharmaceuticals México Service Company, S.A. de C.V., as of December 31, 2017 and 2016, and its financial performance, and its cash flows for the years then ended, in accordance with Mexican Financial Reporting Standards (NIF *for its acronym in Spanish*).

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, and the corresponding "Exhibit". We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Mexico, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis paragraph

With no effect on our opinion, we draw attention to the matter discussed in Note 1 to the financial statements. As of December 31, 2017 and 2016, the Company holds prior year accumulated losses. However, its Partners have stated that they will provide sufficient financial support to continue with the Company operations.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of these 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 and using the going concern basis of accounting, or otherwise, making the appropriate disclosures.

Auditor's Responsibility 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.

SALLES, SAINZ – GRANT THORNTON, S.C.



C.P.C. Guadalupe Saldivar Olivares
Partner

Exhibit of the Independent auditor's report

Additional description of our responsibilities on the audit of the 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 management, 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.

Statements of financial position

As of December 31, 2017 and 2016

(Stated in Mexican Pesos)

	Note	2017	2016
ASSETS			
Current assets			
Cash		\$ 488,169	\$ 379,762
Other receivables	5	350,779	426,459
Related parties	12	7,498,586	6,740,000
Prepaid expenses		1,035,523	1,040,421
Total current assets		9,373,057	8,586,642
non-current assets			
Deferred income tax	10	1,022,809	137,882
Deferred employee profit sharing	11	400,323	-
Total assets		\$ 10,796,189	\$ 8,724,524
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current			
Accounts payable		\$ 1,042,639	\$ 1,131,705
Provisions	6	2,998,171	2,413,234
Related parties	12	-	1,303
Employee profit sharing payable	11	121,716	17,425
Taxes payable		4,474,294	3,755,840
Total current liabilities		8,636,820	7,319,507
Liabilities Long-term			
Reserve for employee benefits	7	3,039,345	2,217,411
Total long-term liabilities		11,676,165	9,536,918
STOCKHOLDERS' EQUITY			
Capital stock	8	5,600,991	5,600,991
Accumulated losses		(6,480,967)	(6,413,385)
Total Stockholders' equity		(879,976)	(812,394)
Total liabilities and stockholders' equity		\$ 10,796,189	\$ 8,724,524

The accompanying notes are an integral part of these statements of financial position

Statements of profit or loss
 For the years ended December 31, 2017 and 2016
 (Stated in Mexican Pesos)

	Note	<u>2017</u>	<u>2016</u>
Income from services	12	\$ 48,791,885	\$ 46,189,655
Cost of services:			
Payroll and benefits employees services		38,633,463	36,548,933
Federal Taxes		6,549,288	6,246,002
Insurance		2,713,522	2,640,767
Professional services		519,933	577,670
Services and comissions		167,643	119,081
Legal fees		10,000	2,000
Statutory employee profit sharing	11	119,141	3,615
Other		680	1,560
		<u>48,713,670</u>	<u>46,139,628</u>
Operating profit		<u>78,215</u>	<u>50,027</u>
Result of financing:			
Exchange loss, net		<u>(4)</u>	<u>(319)</u>
		<u>(4)</u>	<u>(319)</u>
Profit before taxes on income		<u>78,211</u>	<u>49,708</u>
Taxes on income	9	1,030,720	608,832
Deferred income tax	10	<u>(884,927)</u>	<u>(137,882)</u>
		<u>145,793</u>	<u>470,950</u>
Net loss for the year		<u>\$ (67,582)</u>	<u>\$ (421,242)</u>

The accompanying notes are an integral part of these financial statements.

Statements of changes in stockholders' equity

For the years ended December 31, 2017 and 2016

(Stated in Mexican Pesos)

	<u>2017</u>	<u>2016</u>
Capital stock at beginning and end of year	\$ <u>5,600,991</u>	\$ <u>5,600,991</u>
Accumulated losses at beginning of year	\$ (6,413,385)	\$ (5,992,143)
Loss for the year	<u>(67,582)</u>	<u>(421,242)</u>
Accumulated losses at end of year	\$ <u>(6,480,967)</u>	\$ <u>(6,413,385)</u>
Total stockholders' equity	\$ <u>(879,976)</u>	\$ <u>(812,394)</u>

The accompanying notes are an integral part of these financial statements.

Statements of cash flows
For the years ended December 31, 2017 and 2016
 (Stated in Mexican Pesos)

	<u>2017</u>	<u>2016</u>
OPERATING:		
Profit before taxes on income	\$ 78,211	\$ 49,708
Changes in:		
Accounts receivable	75,680	64,672
Related parties	(759,889)	1,018,107
Prepaid expenses	4,898	(169,024)
Accounts payable	(89,066)	(87,400)
Provisions	584,937	(262,930)
Employee profit sharing payable	104,291	(37,818)
Reserve for seniority premium	821,934	550,224
Taxes payable	(312,266)	(937,420)
Deferred employee profit sharing	(400,323)	-
Net cash flows generated from operating activities	<u>108,407</u>	<u>188,119</u>
Increase in cash during the year	108,407	188,119
Cash at beginning of the year	379,762	191,643
Cash at end of the year	<u>\$ 488,169</u>	<u>\$ 379,762</u>

The accompanying notes are an integral part of these financial statements.

Zydus Pharmaceuticals México Service Company, S. A. de C. V.

Notes to the financial statements As of December 31, 2017 and 2016

(Stated in Mexican Pesos)

1 NATURE OF OPERATIONS

Zydus Pharmaceuticals México Service Company, S. A. de C. V. (the Company) was incorporated on August 31, 2010. The Company's main activity is to render administrative and personnel services to its affiliated Zydus Pharmaceuticals México, S. A. de C. V.

The Company is wholly owned subsidiary of Zydus International Private Limited (ZIPL).

Company's office is located at Carretera Picacho Ajusco 154 601 B, Jardines de la Montaña, Mexico City.

As of December 31, 2017 and 2016, the Company has lost more than two-thirds of its capital stock. However Cadila Healthcare Limited (CHL) the ultimate Parent Company of Zydus Pharmaceuticals Mexico Service Company, S. A. de C. V., has given an assurance to provide sufficient financial support, so as to enable the Company to continue its operations without significant curtailment of its operation.

2 APPROVAL AND BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The accompanying financial statements have been prepared in accordance with the Financial Reporting Standards (NIFs, for its Acronym in Spanish) issued by the Mexican Board of Financial Reporting Standards (CINIF, for its Acronym in Spanish).

The accompanying financial statements were authorized to be issued on June 30th, 2018, by Gyanesh Kumar, Finance Head, consequently, they do not reflect events beyond that date.

The General Corporate Law and the by-laws of the Company grant stockholders the possibility to amend the financial statements after issuance them. The accompanying financial statements will be submitted for approval at the General Stockholders' Annual Meeting.

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used to prepare these financial statements are summarized below.

a. Statements of profit or loss

The statements of profit or loss of 2017 and 2016, presented in a single statement, show costs and expenses based on their nature, according to administrative services rendered.

b. Statement of cash flows

The Company decided to present the statement of cash flows using the indirect method. By utilizing this method, profit or loss before income tax provision is firstly presented, and then reconciled by the changes in working capital, investing activities, and finally financing activities.

c. Impact of inflation

Pursuant to NIF B-10, beginning 2008, the companies incorporated before that date suspended recognition of the effects of inflation in view that they now operate in a non-inflationary economic environment. Since the Company commenced operations in 2013, it has not exceeded the threshold of 26% to recognize the effects of inflation. Accumulated inflation for the three years prior to the date of the financial statements is less than 26%.

Annual inflation in 2016, 2015, and 2014 was 3.3603%, 2.1308% y 4.0813%, respectively; therefore, accumulated inflation for the prior three-year period was 9.5724%.

d. Cash

Cash comprise cash on hand and bank deposits in checking accounts.

e. Prepayments

Prepayments represent benefits for which, the receiving goods or services, including their inherent risks, have not yet been delivered and/or transferred to the Company.

f. Foreign currency transactions

The financial statements of the Company are prepared in the currency of the primary economic environment in which the Company (its functional currency) operates. For purposes of these financial statements, the results and financial position are expressed in Mexican pesos, which is the functional currency of the Company and the presentation currency of financial statements.

In preparing the financial statements, transactions in a currency other than the functional currency of the Company (foreign currency) are recognized using the exchange rates prevailing at the dates in which operations are conducted. Exchange gains or losses form part of the comprehensive results of financing, affecting net income.

g. Employee benefits

Effective as of January 1, 2016, the Company adopted, among others, the following pronouncements: 1) identification of post-employment benefits out of those that are considered termination benefits by assessing pre-existing conditions whether the obligation is of a legal, contractual or assumed type; 2) the rate used to discount the obligations is the market rate of high quality corporate bonds in a deep market, 3) the balance of past services is recognized as part of the retained earnings of the most recent period, however the Company decided to recognize it within loss or profit for the year, with no material effect on the accounting treatment difference.

Termination or post-employment benefits established in the Federal Labor Law in Mexico refer mainly to seniority premiums payable to employees who have completed fifteen or more years of service, and indemnifications for voluntary or involuntary separation.

The Company recognizes the liability for employee benefits as follows:

Direct benefits such as salaries, overtime, and vacation among others, are recognized in exchange for services rendered in the period in which they are accrued at their face value and are classified in the short or long term whether these benefits occur or not within the following twelve months

Post-employment benefits that include seniority premium, is determined based on actuarial calculations for personnel years of service, covering the defined benefit obligation in the long-term liabilities

h. Income tax and employee profit sharing, prepaid or deferred

Provisions for income tax (ISR for its acronym in Spanish) and employee profit sharing (PTU for its acronym in Spanish) are recorded in profit or loss for the year they become payable. Also, a deferred tax related to these two items is included, arising from temporary differences resulting from comparing book and tax values of assets and liabilities, including the benefit of tax loss carryforwards and tax credits. A deferred tax asset is recorded only when there is a high likelihood that it can be recovered. Deferred taxes are determined using enacted tax rates that are estimated will be effective on the dates temporary items shall be reversed or realized.

The current and deferred PTU is considered an ordinary expense associated to employee benefits.

i. Revenue recognition

Company recognizes revenue on services when these have been rendered and accepted by the client.

j. Use of estimates

In preparing the financial statements, various estimates and assumptions have been used for presentation of assets and liabilities, and disclosure of contingent assets and liabilities, such as labor obligations, in order to present its financial information in conformity with Mexican Financial Reporting Standards. Actual results can differ from these estimates and assumptions.

k. Provisions, contingent assets and liabilities

Provisions represent, present obligations resulting from past events, and are recognized when: there is a probability of cash outflows, and amounts can be reliably estimated; but they can still both uncertain. A present obligation arises from legal or contractual commitments resulting from past events (see note 6).

I. Comprehensive loss

The amount of comprehensive loss is the result of the total performance of the Company during the years ended December 31, 2017 and 2016. Comprehensive loss is basically represented by net loss for the year as shown in the statement of profit or loss.

4 ACCOUNTING CHANGES

The new Financial Reporting Standards (NIF) applicable from the year beginning on January 1st, 2017 had no impact on the Company's financial information:

NIF B-13 Events subsequent to the date of the financial statements (prospective application). If during the subsequent period (period from the date of the financial statements to the date the financial statements are approved for release), a debtor entity enters into a waiver for a long-term debt default, it may maintain such long-term classification of the debt at the date of the financial statements.

Bulletin C-11 Equity (prospective application). Registration expenses on a stock exchange of shares of an entity, which at the date of such registration were already owned by investors and for which the issuing entity had already received the corresponding funds, must be recognized in profit or loss at the time of its accrual, as this is deemed as a non-equity transaction (the NIF had missed this concept). Additionally, it sets forth that any expense incurred in the repositioning of repurchased shares must be recognized as a reduction of issued and placed equity.

5 OTHER RECEIVABLES:

	2017	2016
Income Tax recoverable	\$ 3,590	\$ 219,266
Value Added Tax recoverable	12,554	789
Miscellaneous	-	60,519
Sundry debtors	334,635	145,885
	<u>\$ 350,779</u>	<u>\$ 426,459</u>

6 PROVISIONS:

	2017	2016
Bonus	\$ 1,999,403	\$ 1,287,454
Personnel benefits	998,768	966,104
Other	-	159,676
	<u>\$ 2,998,171</u>	<u>\$ 2,413,234</u>

7 RESERVE FOR EMPLOYEE BENEFITS:

As of December 31, 2017, the actuarial study information shows the following information:

	Indemnifications	Seniority Premium	Total
Defined benefit obligations (DBO)	\$ 2,890,741	\$ 148,604	\$ 3,039,345
Lliability recognized in the balance sheet	<u>\$ 2,890,741</u>	<u>\$ 148,604</u>	<u>\$ 3,039,345</u>
Current labor service cost	\$ 949,981	\$ 53,327	\$ 1,003,308
Remeasurements recycling recognized in OCI	10,293	(10,471)	(178)
Benefits paid directly by Company	(181,196)	-	(181,196)
Net cost of the period	<u>\$ 779,078</u>	<u>\$ 42,856</u>	<u>\$ 821,934</u>
Actuarial assumptions used in absolute terms			

Actuarial assumptions used in absolute terms:

Discount Rate	7.90%
Rate of compensation increase	5.00%
Rate of minimum wage increase	3.75%

As of December 31, 2016, the actuarial study information shows the following information:

	Indemnifications	Seniority Premium	Total
Defined benefit obligations (DBO)	\$ 2,111,664	\$ 105,747	\$ 2,217,411
Lliability recognized in the balance sheet	<u>\$ 2,111,664</u>	<u>\$ 105,747</u>	<u>\$ 2,217,411</u>
Current labor service cost	\$ 836,388	\$ 43,599	\$ 879,987
(Gain) loss in the obligation	16,558	(88)	16,470
Financial cost	101,450	5,020	106,470
Remeasurements recycling recognized in OCI	(177,537)	(12,336)	(189,873)
Benefits paid directly by Company	(253,691)	(9,139)	(262,830)
Net cost of the period	<u>\$ 523,168</u>	<u>\$ 27,056</u>	<u>\$ 550,224</u>
Actuarial assumptions used in absolute terms			

Actuarial assumptions used in absolute terms:

Discount Rate	7.90%
Rate of compensation increase	5.00%
Rate of minimum wage increase	3.75%

Indemnifications

As of December 31, 2017 and 2016, a reserve for this concept amounted to \$2,890,741 and \$2,111,664 respectively.

Seniority premium

As of December 31, 2017 and 2016, a reserve for this concept amounted to \$148,604 and \$105,747, respectively.

8 STOCKHOLDERS' EQUITY:

a. Capital stock

As of December 31, 2017 and 2016, the Company's nominal capital stock is represented by two common shares, one of them with value in the amount of \$50,000 which represents the minimum fixed capital and the other one in the amount of 5,550,991, which represents the nominal variable capital, with a par value of one peso each.

b. Legal reserve

Net income for the year is subject to the legal provision which requires appropriating 5% of that income to a legal reserve until that reserve equals 20% of the capital stock. The balance of the legal reserve may not be distributed to the stockholders, except as stock dividends. As of December 31, 2017, and 2016 the Company has not yet created any legal reserve.

c. Distribution of earnings

Net taxable income account (CUFIN, for its Acronym in Spanish)-

As of December 31, 2017 and 2016, the balance of the "net taxable income account" (CUFIN) has not been determined, which if it existed no income tax could be assessed on dividends or earnings distributed to stockholders up to the balance of such account.

Effective January 1, 2014, dividends paid to individuals or foreign residents are subject to an income tax at a 10% rate. This income tax is considered as a final payment, and should be withheld by the Company distributing the dividends or earnings. This new rule applies only to the distribution of dividends or earnings generated beginning January 1st, 2014. The Company has no earnings available to be distributed as dividends.

In the case of non-CUFIN dividends, in addition to the above, they will continue to be subject to the payment of income tax payable by the entity, determined based on the general rate of law, which has the characteristic of being final and may be credited against Income tax for the year and the following two.

The balance of this account may be restated up to the date such dividends are distributed, by using the National Consumer Price Index (NCPI).

d. Capital Reductions

As of December 31, 2017 and 2016, the balance of the Restated Contributed Capital Account (CUCA for its acronym in Spanish) amounts to \$6,701,071 and \$6,276,174. Any reimbursement to the stockholders that exceeds the foregoing amount should be treated as a distributed earning for tax purposes.

Likewise, in the event that stockholders' equity should exceed the balance of the CUCA, the spread will be considered as a dividend or distributed earning subject to the payment of income tax. However, if such assessed earning distribution or dividend does not exceed the CUFIN balance, there will be no tax payable for the capital decrease or reimbursement.

9 INCOME TAX:

For the years ended December 31, 2017 and 2016, the Company determined taxable profit in the amount of \$3,435,734 and \$2,029,441, respectively, which differs from the profit before taxes on income of each year, due mainly to the non-deductible expenses and the provisions.

10 DEFERRED INCOME TAX:

As of December 31, 2017 and 2016, the asset resulting from the cumulative effect of deferred income tax, is analyzed as follows:

	<u>2017</u>	<u>2016</u>
Excess of tax value over book value of assets and liabilities, net	\$ 3,409,363	\$ 919,211
Income tax rate	30%	30%
Deferred income tax asset	<u>1,022,809</u>	<u>275,763</u>
Less: Valuation allowance	-	(137,881)
Deferred income tax asset	<u>\$ 1,022,809</u>	<u>\$ 137,882</u>

As of December 31st, 2017 and 2016, this deferred income tax asset is mainly generated by provisions and reserve for employee benefits. However, considering the conditions of the Company and its projections (see Note 1), the Management of the Company's management has decided to cancel the allowance recorded at December 31st, 2016 in the amount of \$137,882.

11 EMPLOYEE PROFIT SHARING (PTU):

For the years ended December 31, 2017 and 2016, the Company generate a basis for employee profit sharing in amount of \$1,191,410 and \$36,155, respectively, which differs from the income tax basis due to employee profit sharing paid, and the amount of other benefits paid to employees which are not fully deductible for income tax purposes. As of December 31st, 2017 and 2016 there were remainder amounts of employee profit sharing not paid from prior years in amount of \$2,575 and \$13,810, respectively.

As of December 31, 2017, the asses resulting from the cumulative effect of deferred employee profit sharing is analysed as follows:

	<u>2017</u>
Excess of tax value over book value of assets and liabilities, net	\$ 4,003,230
Employee profit sharing rate	10%
Deferred employee profit sharing tax asset	<u>\$ 400,323</u>

12 RELATED PARTIES TRANSACTIONS AND BALANCES:

For the years ended December 31, 2017 and 2016, the Company carried out transactions and had balances with related parties as follows:

	2017		
	Balance Receivable	Balance Payable	Transactions Revenues
Zydus Pharmaceuticals México, S.A. de C.V. (Affiliated) (a)	\$ 7,498,586	\$ -	\$ 48,791,885
	2016		
	Balance Receivable	Balance Payable	Transactions Revenues
Zydus Pharmaceuticals México, S.A. de C.V. (Affiliated) (a)	\$ 6,740,000	\$ -	\$ 46,189,655
Cadila Healthcare, LTD. (Affiliated) (b)	-	1,303	
	\$ 6,740,000	\$ 1,303	\$ 46,189,655

- a) As of December 31, 2017 and 2016, the balance receivable from Zydus Pharmaceuticals Mexico, S.A. de C.V. is related to administrative and personnel services and other expenses incurred during the years (See Note 1).
- b) As of December 31, 2016, the balance payable to Cadila Healthcare Limited, of \$ 1,303, is derived from the third party financial support from CHL.

As of December 31, 2017 and 2016, the Company has a transfer pricing study, which supports that the prices utilized in the related-party transactions are comparable to those that would be utilized with or between independent parties.

13 CONTINGENCIES AND COMMITMENTS:

- a) In accordance with currently enacted tax legislation, the authorities have the power to review up to the five fiscal years prior to the last income tax return filed by the Company.
- b) In accordance with the Income Tax Law, companies that carry out domestic or foreign resident related party transactions are subject to limitations and tax obligations, with respect to the determination of prices agreed upon.

Such prices should be comparable to prices that would be used with or between independent parties in arm's length transactions.

In the event that the tax authorities should review the prices and reject the amounts determined, they could impose fines on the omitted contributions, in addition to collecting the pertinent taxes and related charges (restatement and surcharges), which could be as much as 100% of the restated amount of the contributions.

14 CHANGES IN FINANCIAL REPORTING STANDARDS:

At the date of authorization of these financial statements, several new and amended standards have been published by the CINIF, and they are effective on January 1, 2018. These standards and amendments have not been adopted early by the Company. Following, there is information described of those expected to be relevant to the Company's financial statements.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement.

New NIFs

The following are the main changes to the NIFs that come into effect on January 1, 2018 (with retrospective effects):

NIF C-3 Accounts receivable

- States that accounts receivable (AR) based on a contract represent a financial instrument; while others, derived from legal or fiscal provisions, although certain financial instrument characteristics may exist, they are not considered financial instruments.
- States that allowance for doubtful accounts is recognized at the moment revenue is accrued, based on expected estimated losses, and separately presented in expenses if significant within the statement of comprehensive income.
- States that, from their initial recognition (of an AR), value of money in time should be considered, as if the present value (of an AR) is significant based on its term, it should be adjusted upon such present value. Present value is significant when is arranged for full or partial payment in more than one year; as financing is assumed in the transaction.
- An analysis of changes between beginning and ending balance of any doubtful accounts allowance for each period presented should be disclosed.

NIF D-1 Revenue from contracts with customers

Adoption of this standard eliminates alternative application of International Accounting Standard IAS 18 Revenue recognition, and its interpretations.

Main changes of this standard with respect to IAS 18 are:

- a) Transferring control, rather than transferring risks and benefits of a good or the rendering of a service
- b) Requirements for identification of contractual [performance] obligations are expanded
- c) Sets forth the allocation of the amount of the transaction among performance obligations, based on independent sales prices
- d) The concept "conditioned account receivable" is introduced, to recognize that some contracts have no unconditional full right to the consideration, as it will be *conditioned* to meet another performance obligation of the same contract
- e) Sets forth drivers to recognize collection rights, to recognize the unconditional right to the consideration before the performance obligation is fulfilled.
- f) Requirements and guidance to value the variable consideration are provided (financing components, consideration other than cash, etc.).

NIF D-2 Costs from contracts with customers

Effective in conjunction with NIF D-1, supersedes Bulletin D-7, Contracts for construction and manufacturing of certain capital assets, INIF 14, Contracts for construction, sale and providing services on real estate, except for what it relates to recognition of assets and liabilities of this kind of contracts.

Recognition of costs from contracts with customers is separately pronounced in this standard, and it is expanded to all kinds of contracts with customers.

NIF B-17 Fair value measurement

This standard defines the fair value as the exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. a current value based on an exit price - market). In determining the fair value, the entity must use those assumptions that market participants would use to determine the price of an asset or liability in current market conditions at a given date, including risk assumptions. As a result, the entity's intention to hold an asset or liquidate, or otherwise satisfy a liability, is not material in determining fair value.

In determining fair value, an entity is required to consider the following:

- a) the particular asset or liability being valued;
- b) for a non-monetary asset, the greater and better use of the asset, and, if the asset is used in combination with other assets or on an independent basis;
- c) the market in which an orderly transaction would take place for the asset or the liability; and
- d) the appropriate valuation technique or techniques for the determination of fair value. The valuation technique or techniques used should maximize the use of relevant observable input data and minimize unobservable input data. These input data must be compatible with the input data that a market participant would use when determining the price of the asset or liability.

This Standard reconsiders the previous entry value at replacement cost as part of the cost approach in valuation techniques to determine fair value.

NIF C-9 Provisions, Contingencies and Commitments

First adoption of this standard does not generate accounting changes. Main amendments of this standard are:

- a) financial liabilities are no longer addressed in this standard, rather, they were included in NIF 19,
- b) definition of liability is modified, the term virtually unavoidable was changed to probable.

NIF's IMPROVEMENTS 2018

In December 2017, the following Improvements to the NIFs were promulgated, which will be effective in fiscal years beginning on January 1, 2018, allowing for their early application in some cases.

I. Improvements that arise accounting changes

NIF B-2 Statement of cash flows

Disclosures of liabilities arising from financing activities – Retrospective application, effective on January 1, 2018, early adoption allowed.

Disclosure of relevant changes in liabilities allocated as financing activities is required, whether cash and cash equivalents were utilized or not. Preferably, a reconciliation between beginning and ending balance of such items should be performed, showing the following:

- I. cash flow changes;
- II. changes arising from gaining or losing control on subsidiaries and other ventures;

- III. foreign currency fluctuations;
- IV. fair value changes;
- V. changes in associated financial assets, which cash flows should be allocated as financing activities, such as financial assets used as hedging financial liabilities; and
- VI. other relevant changes.

Precisions to the NIF on financial instruments

Some amendments were included to achieve consistency among all released NIF's that address financial instruments. Likewise, the requirement of fair value determination was eliminated, as this is now addressed and determined in accordance with NIF B-17 Fair Value Measurement. Improved NIF's are:

- NIF C-2 Investments in financial instruments
- NIF C-3 Accounts receivable
- NIF C-10 Derivative financial instruments and hedging relationships
- NIF C-16 Impairment of financial instruments receivable
- NIF C-19 Financial instruments payable
- NIF C-20 Financial instruments on principal and interest receivable