



REPORT OF THE INDEPENDENT AUDITOR ON INDIVIDUAL ACCOUNTING STATEMENTS

The shareholders of the
ZYDUS NIKKHO FARMACÊUTICA LTDA.
RIO DE JANEIRO - RJ.

Opinion

We have audited the individual financial statements of Zydus Nikkho Farmacêutica Ltda. Which comprise the balance sheet as of December 31, 2018, and the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended. As well as the related explanatory notes, including a summary of the main accounting policies.

In our opinion, the individual financial statements referred to above present fairly, in all material respects, the individual and financial position of Zydus Nikkho Farmacêutica Ltda., as of December 31, 2018, the individual performance of its operations and their respective Individual cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) - only in cases where there are no differences between the two accounting practices.

Basis for opinions

Our audit was conducted in accordance with Brazilian and international auditing standards. Our responsibilities, in accordance with such standards, are described in the following section, entitled "Auditor's Responsibilities for the Audit of the Individual Financial Statements." We are independent in relation to the company, in accordance with the relevant ethical principles set forth in the Professional Code of Ethics of the Accountant and in the professional norms issued by the Federal Accounting Council, and we comply with the other ethical responsibilities according to these norms. We believe that the audit evidence we have obtained is sufficient and appropriate to substantiate our opinion.

Other information accompanying the individual financial statements and the auditor's report

The management of the company is responsible for such other information that comprises the Management Report.

Our opinion on the individual financial statements does not cover the Management Report and we do not express any form of audit conclusion about this report.

In connection with the audit of the individual financial statements, our responsibility is to read the Management Report and, in so doing, to consider whether this report is materially inconsistent with the financial statements or with our knowledge obtained in the audit or, otherwise it appears to be materially distorted. If, based on our work, we conclude that there is a material misstatement in the Management Report, we are required to report this fact. We have nothing to report on this.



Responsibilities of management and governance by the individual financial statements.

Management is responsible for the preparation and fair presentation of the individual financial statements in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) Determined as necessary to enable the preparation of financial statements free of material misstatement, whether caused by fraud or error.

In the preparation of the individual financial statements, management is responsible for evaluating the company's ability to continue operating, disclosing, when applicable, matters related to its operational continuity and the use of this accounting basis in the preparation of the financial statements, unless Intends to liquidate the company or cease its operations, or has no realistic alternative to avoid closing the operations.

Those responsible for corporate governance are those responsible for overseeing the process of preparing the financial statements.

Responsibilities of the auditor for the audit of the individual financial statements.

Our objectives are to obtain reasonable assurance that the individual financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error, and issue an audit report containing our opinion. Reasonable security is a high level of security, but not a guarantee that the audit conducted in accordance with

Brazilian and international auditing standards will always detect any relevant material misstatements. Distortions may be due to fraud or error and are considered relevant when, individually or jointly, they can influence, from a reasonable perspective, the economic decisions of the users taken based on the said financial statements.

As part of the audit conducted in accordance with Brazilian and international auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. Besides that:

- We identify and assess the risks of material misstatement in the individual financial statements, whether caused by fraud or error; We plan and perform audit procedures in response to such risks; And we obtain audit evidence appropriate and sufficient to substantiate our opinion. The risk of not detecting material misstatement resulting from fraud is greater than that of error, since fraud may involve circumvention of internal controls, collusion, falsification, omission or false intentional representations.
- We obtain an understanding of the internal controls relevant to the audit to plan audit procedures appropriate to the circumstances, but not, in order to express an opinion on the effectiveness of the company's internal controls.
- We evaluate the adequacy of the accounting policies used and the reasonableness of the accounting estimates and respective disclosures made by management.
- We conclude on the adequacy of the management's use of the accounting basis for operational continuity and, based on the audit evidence obtained, whether there is a material uncertainty regarding events or conditions that may raise significant doubt regarding the Company's operational continuity



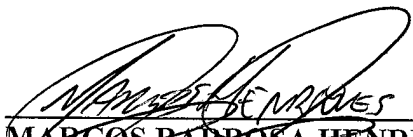
company. If we conclude that there is material uncertainty, we should draw attention in our audit report to the respective disclosures in the individual and consolidated financial statements or include modification in our opinion if the disclosures are inadequate. Our findings are based on the audit evidence obtained up to the date of our report. However, future events or conditions may lead the company to no longer remain in operational continuity.

- We evaluate the overall presentation, structure and content of financial statements, including disclosures and whether the individual financial statements represent the corresponding transactions and events in a manner consistent with the appropriate presentation objective.
- We obtain adequate and adequate audit evidence regarding the entity's financial information or business activities to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the company's audit and, consequently, for the audit opinion.

We communicate with those responsible for governance regarding, inter alia, the planned scope, timing of the audit and significant audit findings, including any significant weaknesses in the internal controls we have identified during our work.

São Paulo, January 31, 2019.

HOLDER AUDITORES INDEPENDENTES SS – EPP
CRC 2SP 034.257/O-4


MARCOS BARBOSA HENRIQUES
CRC 1SP 258.019/O-6

ZYDUS NIKKHO FARMACÊUTICA LTDA
BALANCE SHEET

FOR THE FISCAL YEARS ENDED ON DECEMBER 31, 2018 and 2017

(In Real - BRL)



| ASSETS | Nota | 2018 | | 2017 | | LIABILITIES AND NET EQUITY | Nota | 2018 | | 2017 | |
|----------------------------------|------|--------------------|--|--------------------|--|--|------|--------------------|--|--------------------|--|
| | | | | | | | | | | | |
| CURRENT | | | | | | | | | | | |
| Cash and cash equivalents | 3 | 2.101.163 | | 2.855.420 | | Suppliers | 12 | 33.373.325 | | 14.518.591 | |
| Accounts receivable from clients | 4 | 43.591.044 | | 38.330.828 | | Tax obligations | 13 | 2.389.395 | | 3.164.631 | |
| Inventories | 5 | 27.312.367 | | 14.472.887 | | Wages, charges, and vacation | 14 | 3.955.601 | | 3.876.911 | |
| Recoverable taxes | 6 | 1.443.436 | | 958.457 | | Other obligations | 15 | 1.808.770 | | 1.323.586 | |
| Prepaid expenses | | 219.742 | | 259.580 | | Total current liabilities | | 41.527.092 | | 22.883.720 | |
| Other current assets | 7 | 951.235 | | 1.037.109 | | | | | | | |
| Total current assets | | 75.618.987 | | 57.914.280 | | NON-CURRENT | | | | | |
| NON-CURRENT | | | | | | | | | | | |
| Escrow account | 8 | 10.950.359 | | 10.401.450 | | Allowances for civil, tax, and labor risks | 16 | 7.337.299 | | 8.837.565 | |
| Legal deposits | 9 | 3.348.556,04 | | 4.286.745 | | Escrow account | 8 | 10.857.574 | | 10.204.275 | |
| Fixed assets | 10 | 9.986.612 | | 9.310.816 | | Total non-current liabilities | | 18.194.873 | | 19.041.840 | |
| Intangible assets | 11 | 44.789.192 | | 44.800.984 | | | | | | | |
| Total non-current assets | | 69.074.720 | | 68.799.995 | | Net equity | | | | | |
| | | | | | | Share capital | 18 | 145.720.724 | | 145.720.724 | |
| | | | | | | Accrued losses | | (60.748.983) | | (60.932.010) | |
| | | | | | | Total net equity | | 84.971.741 | | 84.788.714 | |
| TOTAL ASSETS | | 144.693.707 | | 126.714.275 | | TOTAL LIABILITIES AND NET EQUITY | | 144.693.707 | | 126.714.275 | |

The accompanying notes are an integral part of these financial statements


ZYDUS NIKKHO FARMACÊUTICA LTDA
GILSON ANTONIO DA SILVA
Controller
CRC/RJ 67027-0

| | <u>2018</u> | Nota | <u>2017</u> |
|--|-----------------------|------|---------------------------|
| Sales revenue | 128.933.912 | 20 | 107.782.551 |
| Cost of products and goods sold | <u>(52.686.331)</u> | 21 | <u>(41.656.231)</u> |
| Gross profit | 76.247.581 | | 66.126.320 |
| Operating (expenses) revenue | | | |
| Sales | (42.853.207) | 21 | (41.760.522) |
| Administrative | (33.645.694) | 21 | (24.632.548) |
| Other operating (expenses) revenue | <u>2.624.241</u> | 22 | <u>338.709</u> |
| | <u>(73.874.659)</u> | | <u>(66.054.360)</u> |
| Operating income before the financial | 2.372.922 | | 71.960 |
| Financial result | | | |
| Financial revenues | 1.409.472 | 23 | 1.679.956 |
| Financial expenses | (1.296.234) | 23 | (2.079.507) |
| Monetary and exchange variations | <u>(2.303.133)</u> | 23 | <u>(281.915)</u> |
| Net financial result | <u>(2.189.895)</u> | | <u>(681.466)</u> |
| Income before taxes | 183.027 | | (609.506) |
| Provision for income and social contribution taxes | - | | (485.657) |
| Gain (Loss) for the year | <u>183.027</u> | | <u>(1.095.163)</u> |

The accompanying notes are an integral part of these financial statements



ZYDUS NIKKHO FARMACÊUTICA LTDA.
 GILSON ANTONIO DA SILVA
 Controller
 CRCIRJ 67027-0

(In Real - BRL)

| | 2018 | 2017 |
|---|--------------------|--------------------|
| CASH FLOW FROM OPERATING ACTIVITIES | | |
| Gain(Loss) for the year | 183.027 | (1.095.163) |
| Adjustments to reconcile the loss for the year with net cash generated by operating activities: | | |
| Depreciation and amortization | 1.147.504 | 1.259.168 |
| Income from the sale of fixed assets | (4.824) | (37.686) |
| Write-off of fixed assets | 489 | 6.664 |
| Allowance for inventory losses | 769.555 | 1.298.029 |
| Allowance for tax, civil, and labor risks | 58.510 | - |
| Inventory losses | 2.550.421 | 33.491 |
| Losses on receivables | 768.740 | - |
| Reversal of the allowance for inventory losses | (2.548.122) | (33.491) |
| Reversal of the allowance for non-performing loans | (378.058) | - |
| Reversal of provision for tax, civil and labor risks | (1.558.776) | (1.399.314) |
| Allowance for interest and monetary and exchange variations | 2.956.431 | 281.916 |
| | 3.761.869 | 1.408.777 |
| Decrease (Increase) in operating assets: | | |
| Accounts receivable from clients | (5.650.898) | (4.171.044) |
| Inventories | (13.611.335) | 2.765.516 |
| Recoverable taxes | (484.979) | (117.462) |
| Prepaid expenses | 39.838 | 84.685 |
| Judicial deposits | 389.280 | 4.076.517 |
| Other assets | 90.698 | (225.872) |
| Decrease (Increase) in operating liabilities: | | |
| Suppliers | 16.551.601 | 1.473.068 |
| Wages and payroll charges | 78.690 | 881.583 |
| Tax obligations | (775.236) | 437.909 |
| Escrow | - | (1.759.258) |
| Other liabilities | 485.184 | (945.706) |
| | 1.057.740 | 2.813.550 |
| <u>Net cash generated by (invested in) operating activities</u> | 1.057.740 | 2.813.550 |
| CASH FLOW FROM INVESTING ACTIVITIES | | |
| Acquisition of fixed and intangible assets | (1.811.997) | (1.212.990) |
| <u>Net cash generated by (invested in) investment activities</u> | (1.811.997) | (1.212.990) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (754.257) | 1.600.561 |
| Opening balance of cash and cash equivalents | 2.855.420 | 1.254.859 |
| Closing balance of cash and cash equivalents | 2.101.163 | 2.855.420 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (754.257) | 1.600.561 |
| | 0,00 | - |

The accompanying notes are an integral part of these financial statements


 ZYDUS NIKKHO FARMACÊUTICA LTDA.
 GILSON ANTONIO DA SILVA
 Controller
 CRC/RJ 67027-0

ZYDUS NIKKHO FARMACÊUTICA LTDA
 STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
 FOR THE FISCAL YEARS ENDED ON DECEMBER 31, 2018 and 2017
 (In Real - BRL)



| | Share capital | Accrued losses | Total Net Assets |
|----------------------|---------------|----------------|------------------|
| On December 31, 2016 | 145.720.724 | (59.836.846) | 85.883.878 |
| Loss for the Year | - | (1.095.163) | (1.095.163) |
| On December 31, 2017 | 145.720.724 | (60.932.010) | 84.788.714 |
| Gain for the Year | | 183.027 | 183.027 |
| On December 31, 2018 | 145.720.724 | (60.748.983) | 84.971.741 |

The accompanying notes are an integral part of these financial statements


 ZYDUS NIKKHO FARMACÊUTICA LTDA,
 GILSON ANTONIO DA SILVA
 Controller
 CRC/RJ 67027-0

Zyduş Nikkho Farmacêutica Ltda.
Individual Financial Statements
Related to Exercise
Ended as of December 31st, 2018 and
Independent Auditors' Report
on the Financial Statements

HOLDER SS INDEPENDENT AUDITORS – Small Enterprise (EPP)

1. OPERATIONAL CONTEXT

ZYDUS NIKKHO FARMACÊUTICA LTDA. hereinafter referred to as "Zydus Nikkho" or "Company", is a limited liability company with its head office in the city of Rio de Janeiro, in the state of Rio de Janeiro. Its corporate purpose is the production, distribution and marketing of medicine for human use, operating throughout the national territory.

2. PRESENTATION OF FINANCIAL STATEMENTS

2.1 Declaration of conformity

The financial statements have been prepared in accordance with accounting practices adopted in Brazil that comprise the Brazilian Corporate Law and the Pronouncements, Interpretations and Guidelines issued by the Accounting Pronouncements Committee ("CPC"), approved by the Brazilian Securities Commission ("CVM") and by the Federal Accounting Council ("CFC"). All the relevant information specific to the financial statements, and only this information, are being evidenced and correspond to those used in the management of the Company.

The subsequent events were evaluated until January 31st, 2019, the date in which the financial statements were approved by Management.

2.2 Main accounting policies

2.2.1 Accounting estimates: the preparation of the financial statements in accordance with accounting practices adopted in Brazil requires Management to use its judgment in the determination and recording of accounting estimates. Significant assets and liabilities subject to these estimates and assumptions include the definition of the life cycle of property and intangible assets with defined life cycles, losses for doubtful accounts, provision for losses in inventories and provision for contingent risks. Settlement of transactions involving these estimates may result in divergent values due to inaccuracies inherent in the determination process. Zydus Nikkho Management reviews the estimates at least annually.

2.2.2 Financial Instruments: the classification of financial assets is made upon initial recognition, under the following categories: Measured at fair value through income statement, loans and receivables and available for sale. For financial liabilities, the classification can be: at fair value through income statement and measured at amortized cost. Financial assets are initially recognized at fair value, plus transaction costs, with the exception of assets classified as fair value through income statement. Financial assets are written off when rights to receive cash flows have expired or the risks and benefits have been significantly transferred. Loans and receivables are recorded at amortized cost using the effective interest rate method.

As of 01/01/2018, the financial instruments were subject to a new accounting policy and consequently new classifications presentation and measurement. In summary, financial instruments are classified and measured as follows:

- **Financial assets measured at fair value through income statement:** these assets are subsequently measured at fair value. Net income, including interest, is recognized directly in the income statement.

- **Financial assets at amortized cost:** these assets are measured subsequently to the amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized directly in the income statement. Any gain or loss on derecognition is recognized in profit or loss.

- **Financial assets measured at fair value through other comprehensive income statements:** these assets are subsequently measured at fair value. The interest income calculated using the effective interest method, exchange gains and losses and impairment are recognized in the income statement. Other net income is recognized in other comprehensive income statements. In derecognition, the accumulated income within a more comprehensive income is reclassified to the income statement.

ZYDUS NIKKHO FARMACÊUTICA LTDA.

EXPLANATORY NOTES OF THE MANAGEMENT REGARDING THE FINANCIAL STATEMENTS
AS OF DECEMBER 31st, 2018 (In Brazilian currency)

- **Financial liabilities** are classified as measured at amortized cost or at fair value through income statement. A financial liability is classified as measured at fair value through income statement if it is classified as held for trading, if it is a derivative or if it is designated as such upon initial recognition. Financial liabilities measured at fair value in face of the income statement are measured at fair value; and net income, including interest, is recognized in the income statement. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expenses, foreign exchange gains and losses are recognized in the income statement.

Until 12/31/2017, the company adopted the policy that was then in force. The new standard presents changes with the following effects as a result:

| | 2017 | 2017 | 2017 | 2017 |
|----------------------------------|-------------------------------------|------------------------|-------------------|------------------------|
| | <u>New Policy</u> | <u>Previous Policy</u> | <u>New Policy</u> | <u>Previous Policy</u> |
| Current Financial Assets | | | | |
| Cash and Cash Equivalents | Fair Value Through Income Statement | Loans and Receivables | 2,855,420 | 2,855,420 |
| Accounts Receivable from clients | Amortized Cost | Loans and Receivables | 38,330,828 | 38,330,828 |
| Other Current Assets | Amortized Cost | | 1,037,109 | 1,037,109 |
| TOTAL Financial Assets | 42,223,357 | | 42,223,357 | 42,223,357 |

The classification of financial instruments is shown in explanatory note No. 25.

2.2.3 Cash and cash equivalents: These include cash, bank deposits, other highly liquid short-term investments with original maturities of three months or less and insignificant risk of change in value.

2.2.4 Accounts receivable from clients: the accounts receivable from clients correspond to the amounts receivable from clients for the sale of goods in the normal course of the Company's activities. If the term of receipt is equivalent to one year or less, the accounts receivable are classified in current assets. Otherwise, they are presented as non-current assets. Accounts receivable from clients are initially recognized at fair value and subsequently measured at amortized cost using the method of effective interest rate minus the provision for doubtful accounts (*impairment*). In practice, they are usually recognized at the amount billed, adjusted according to the loss estimated for clients with doubtful accounts, if necessary.

2.2.5 Inventories: the inventories are stated at cost or net realizable value; whichever amount is lower. The cost of finished products and products under development comprises costs of raw materials, direct labor, other direct costs and indirect costs of production (based on operational capacity). When necessary, a provision for slow-moving and/or obsolete inventories is constructed to reflect the risk of realization of these inventories.

2.2.6 Other current and non-current assets: are stated at the net realizable value, shown in current or non-current assets according to the forecast of their realization.

2.2.7 Property, plant and equipment (fixed assets): is shown at cost value minus accumulated depreciation and losses due to reduction of retrievable value. Depreciation is recognized based on the estimated life cycle of each asset by the linear method, so that the cost value minus its residual value after its life cycle is fully written off (except for land and construction in progress). The estimated life cycle, residual values and depreciation methods are reviewed at the end of each year, and the effect of any changes in estimates is accounted for prospectively. An item of property, plant and equipment is written off after the disposal or when there are no future economic benefits resulting from the continued use of the asset. Any gains or losses on the sale or write-off of an item of property, plant and equipment are determined by the difference between the amounts received in the sale and the book value of the asset, and recognized in the income statement.

ZYDUS NIKKHO FARMACÊUTICA LTDA.

EXPLANATORY NOTES OF THE MANAGEMENT REGARDING THE FINANCIAL STATEMENTS
AS OF DECEMBER 31st, 2018 (In Brazilian currency)

The estimated life cycles are as follows:

| | <u>Expected Life Cycle</u> <u>(Years)</u> |
|------------------------|--|
| Real Estate | 25 years |
| Facilities | 10 years |
| Machines and Equipment | 10 years |
| Electronic Equipment | 5 years |
| Furniture and Fixtures | 10 years |
| Vehicles | 5 years |
| Improvements | 25 years |

Impairment

Impairment of non-financial assets - Non-financial assets are reviewed for *impairment* whenever events or changes in circumstances indicate that the book value may not be recoverable. An *impairment* loss is recognized when the book value of the asset exceeds its recoverable amount, which represents the greater value considering the fair value of an asset minus its disposal costs ("VJMCV") and its value in use ("VIU").

VJMCV is generally determined as the basis for the present value of the estimated future cash flows arising from the continued use of the asset, including any prospects for expansion and its possible disposal. The VIU is determined by the present value of estimated future cash flows that are expected to be continued use of the asset in its current conditions, without taking into account future developments. These assumptions are different from those used in the calculation of the VIU and, therefore, the calculation of the value in use will probably have a different result from the calculation of the VJMCV.

2.2.8 Intangible assets: a) Goodwill: goodwill is represented by the positive difference between the amount paid and/or payable for the acquisition of a business and the net amount of the fair value of the assets and liabilities of the subsidiary acquired. Goodwill on acquisitions of subsidiaries is recorded as "Intangible assets". Goodwill is stated by its fair value minus accumulated *impairment* losses. *Impairment* losses recognized on goodwill are not reversed. Goodwill is tested annually for to verify losses (*impairment*).

For the purpose of *impairment* assessment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash Generating Units (CGUs)). For the purposes of this test, goodwill is allocated to Cash Generating Units or groups of Cash Generating Units that are expected to benefit from the business combination from which the goodwill originated. These are identified according to operating segment. Goodwill is considered to be an asset with an indefinite life cycle. **(b) Trademarks and patents:** registered trademarks and patents are stated at historical cost minus amortization. The assets arising from the business combination are recorded at fair value at the acquisition date. Expenses incurred internally for the development and strengthening of a trademark are recognized as an expense. **(c) Improvement to the manufacturing process:** production of pilot tests to enable investments in improvements in the manufacturing process aiming at higher productivity. **(d) Software:** Software licenses acquired are capitalized based on the costs incurred in acquiring them and making them ready for use.

The estimated life cycles of assets with a defined life cycle are as follows:

| | <u>Expected Life Cycle</u> <u>(Years)</u> |
|---|--|
| Trademarks and patents | - |
| Improvements to the manufacturing process | 5 years |
| Software | 5 years |

ZYDUS NIKKHO FARMACÊUTICA LTDA.

EXPLANATORY NOTES OF THE MANAGEMENT REGARDING THE FINANCIAL STATEMENTS AS OF DECEMBER 31st, 2018 (In Brazilian currency)

2.2.9 Loans and financing: are recognized at fair value upon receipt of funds, net of transaction costs and plus charges, interest and monetary variation, as contractually provided and incurred through the balance sheet dates. Any difference between the amounts raised and the settlement value is recognized in the income statement for the period during which the loan is outstanding, using the effective interest rate method. Accordingly, the balance payable on the balance sheet date is close to the fair value.

2.2.10 Vacation payable: constituted based on the rights acquired by the employees up to the balance sheet date and including the corresponding social charges.

2.2.11 Other current and Non-current liabilities: these are stated at known or estimated amounts plus the related charges and/or monetary and exchange variations incurred up to the balance sheet date, when applicable.

2.2.12 Provision for Tax, Civil and Labor Risks: the provision is recognized in the balance sheet when the Company has a legal or constituted obligation as a result of a past event and it is probable that the economic resource will be required to settle the obligation. Provisions are recorded based on the best estimates of the specific risks of the liability and duly supported by the assessment of the likelihood of loss by the Company's administrators and legal advisors.

2.2.13 Income Tax and Social Contribution: taxation on profit comprises income tax and social contribution. Income tax is calculated on annual profit at a rate of 15%, plus an additional 10% on profits that exceed BRL 240 thousand in the period. Social contribution is calculated at a rate of 9% on adjusted profit according to the legislation. Both are recognized according to the accrual basis.

2.2.14 Determination of income and recognition criteria of Sales Revenue: sales revenue is presented net of taxes and discounts recurrent upon itself. Sales revenues are currently recognized when products are delivered to the customer and the performance obligation is met.

In 2018, the Company adopted IFRS 15 (Customer Contract Revenue). However, the adoption of this measure did not generate any change in amounts previously recognized as revenue, due to the non-relevance of the change in the standard for the Company. As a result, the information presented for the year 2017 has not been restated and, therefore, the information for the 2017 financial year continues to be presented as disclosed in accordance with IAS 18 and related interpretations.

2.2.15 Financial Revenue: these are recognized according to the elapsed period, based on the effective interest rate method and are recognized as they are expected to be realized.

2.2.16 Result by share: in accordance with IAS 33/CPC 41 - Earnings per share, the company reconciles the net profit to the amounts used to calculate the basic and diluted earnings per share. The company does not have instruments that have not been included in the calculation of earnings per share because they are anti-dilutive. Therefore, the result by basic share is the same as the diluted one, as shown:

| | <u>2018</u> | <u>2017</u> |
|---|-------------|-------------|
| Basic and Diluted Result | | |
| Profit (Loss) for the year for common share | 183,026 | (1,095,163) |
| Common Shares | 145,720,724 | 145,720,724 |
| Profit (Loss) per share – basic | 0.0012 | (0.0075) |

2.3 New standards and interpretations not yet effective

IFRS 16 Leasing - (CPC 06 (R2)) - This standard is effective for fiscal years beginning on or after 1/01/2019 and introduces a single model for the accounting of leases in the balance sheet for lessees. A lessee recognizes a right of use asset that represents his/her right to use the leased asset and a lease liability that represents his/her obligation to make lease payments. Exemptions are available for short term leases and low value items. This standard replaces existing lease standards, including CPC 06/IAS 17 - Leasing Operations and ICPC 03/ IFRIC

ZYDUS NIKKHO FARMACÊUTICA LTDA.

EXPLANATORY NOTES OF THE MANAGEMENT REGARDING THE FINANCIAL STATEMENTS AS OF DECEMBER 31st, 2018 (In Brazilian currency)

4, SIC 15 and SIC 27 - Complementary Aspects of Leasing Operations. As of 2019, the Company will recognize new assets and liabilities for its operating leases. The nature of the expenses related to these leases will change because the Company will recognize a depreciation of right of use assets and financial expense on lease obligations. Until 2018, the Company recognized an operating lease expense during the lease term. No significant impact is expected on the Company's financial leases.

This pronouncement takes effect as of January 1st, 2019 and was not adopted in advance by the company. Management evaluated the impacts of the new standard and as of 12/31/2018 has an operating lease obligation of BRL 3,757,160 and a right of use asset of BRL 3,377,253. This estimate takes into account reasonable assumptions available to the Company and may vary from the initial adoption.

| | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>Total</u> |
|--------------------|-------------|-------------|-------------|--------------|
| Operational Leases | 2,268,731 | 1,344,451 | 143,978 | 3,757,160 |

The effect is related to the operating lease operations of the vehicle fleet.

Issuance of interpretation IFRIC 23 – Uncertainties in the treatment of income taxes. It establishes aspects of recognition and measurement of IAS 12 when there are uncertainties regarding the treatment of income tax related to current or deferred tax assets or liabilities - based on taxable profits, tax losses, tax bases, unused tax losses, unused tax credits and tax rates. This interpretation is effective for fiscal years beginning on or after 1/01/2019. The Company does not expect significant impacts on its Financial Statements.

Amendment of standard IAS 19 – Changes in plan in cases of reduction or settlement. Clarifies aspects of measurement and recognition in the result of the effects of reductions and settlements in employee benefit plans. The change in this standard is effective for fiscal years beginning on or after 1/1/2019. The Company does not expect significant impacts on possible future events of reductions and settlements in employee benefit plans.

Amendment of IFRS 3 – Definition of business. Clarifies aspects for the definition of business, in order to clarify when a transaction should have accounting treatment of business combination or acquisition of assets. The change in this standard is effective for fiscal years beginning on or after 1/1/2020. The Company does not expect significant impacts on possible future events of business combination or acquisition of assets.

Amendment of IAS 1 and IAS 8 – Definition of materiality. Clarifies aspects of materiality for the framework of the accounting standard where this concept is applicable. The change in this standard is effective for fiscal years beginning on or after 1/1/2020. The Company does not expect significant impacts on its Financial Statements.

3 CASH AND CASH EQUIVALENTS

| | <u>2018</u> | <u>2017</u> |
|------------------------------------|-------------|-------------|
| Cash and movement of bank accounts | 218,777 | 2,848,298 |
| Financial investments | 1,882,386 | 7,122 |
| Total | 2,101,163 | 2,855,420 |

Financial investments in securities for trading include Bank Deposit Certificates (CDB) and investments in securities, which are recorded at fair value. The revenue generated by these investments is recorded as financial revenue.

ZYDUS NIKKHO FARMACÊUTICA LTDA.

EXPLANATORY NOTES OF THE MANAGEMENT REGARDING THE FINANCIAL STATEMENTS
AS OF DECEMBER 31st, 2018 *(In Brazilian currency)*

4 ACCOUNTS RECEIVABLE

| | 2018 | 2017 |
|--|-------------------|-------------------|
| Clients | 43,591,044 | 38,708,886 |
| Estimated losses for doubtful accounts | - | (378,058) |
| Total | 43,591,044 | 38,330,828 |

The credit risk of accounts receivable arises from the possibility of the Company not receiving amounts arising from sales operations. To mitigate this risk, the Company adopts as practice the detailed analysis of the financial and patrimonial situation of its clients, establishing a credit limit and permanently monitoring their debit balance. The estimate for credit risk was calculated based on the credit risk analysis, which includes the history of losses, the individual situation of the clients, the situation of the economic group to which they belong, the actual guarantees for the debts and the evaluation of the consultants. The combination of these elements is considered sufficient to cover possible losses on amounts receivable. The breakdown of client accounts receivable by maturity, as well as the maximum exposure to credit risk, is as follows:

| | 2018 | 2017 |
|--------------------|-------------------|-------------------|
| Maturing debt | 38,412,631 | 32,046,219 |
| Overdue: | | |
| From 1 to 30 days | 2,188,816 | 2,493,029 |
| From 31 to 60 days | 143,115 | 1,494,944 |
| From 61 to 90 days | 81,189 | 265,435 |
| Over 120 days | 2,765,293 | 2,409,259 |
| Total | 43,591,044 | 38,708,886 |

| | 2018 | 2017 |
|---|-------------------|-------------------|
| Maximum exposure to credit risk | 43,591,044 | 38,708,886 |
| Outstanding balances | 38,412,631 | 32,046,219 |
| Overdue balances not considered as risk of loss (i) | 5,178,413 | 6,284,609 |
| Overdue balances considered as risk of loss (ii) | - | 378,058 |
| Total | 43,591,044 | 38,708,886 |

(i) Such clients have a history of receipt, but for a temporary reason they present problems regarding financial settlement. Therefore, they were not estimated as risk of loss.

(ii) All balances in this group are due in excess of 120 days in 2018.

The Movement of estimated losses for doubtful accounts:

| | 2018 | 2017 |
|----------------------|-------------|------------------|
| Opening balance | (378,058) | (378,058) |
| Addition | - | - |
| Reversal | 378,058 | - |
| Final balance | - | (378,058) |

The amounts charged to the provision account are written off from accounts receivable when there is no expectation of recovery of resources.

ZYDUS NIKKHO FARMACÊUTICA LTDA.

EXPLANATORY NOTES OF THE MANAGEMENT REGARDING THE FINANCIAL STATEMENTS
AS OF DECEMBER 31st, 2018 *(In Brazilian currency)*

5 INVENTORIES

| | 2018 | 2017 |
|-------------------------------------|-------------------|-------------------|
| Finished products | 4,579,832 | 2,981,767 |
| Products in preparation | 2,319,551 | 3,940,000 |
| Goods | 5,789,264 | 5,144,070 |
| Raw materials and packages | 5,329,731 | 3,330,929 |
| Warehouse | - | 2,349 |
| Third party owned inventory | 5,783,566 | 1,621,893 |
| Goods in transit | 4,279,978 | - |
| Provision for losses on inventories | (769,555) | (2,548,121) |
| Total | 27,312,367 | 14,472,887 |

| | 2018 | 2017 |
|-----------------------------|------------------|------------------|
| Third party owned inventory | | |
| Finished products | 2,499,320 | 629,514 |
| Goods | 2,564,590 | 449,647 |
| Products in preparation | 38,887 | - |
| Raw materials and packages | 680,769 | 542,732 |
| Total | 5,783,566 | 1,621,893 |

Movement of the provision for losses on inventories:

| | 2018 | 2017 |
|--|------------------|--------------------|
| Opening balance | (2,548,121) | (1,283,583) |
| Provision for losses on inventories | (769,555) | (1,298,029) |
| Realization of the provision for losses on inventories | 2,548,121 | 33,491 |
| Final balance | (769,555) | (2,548,121) |

The provision for inventory losses corresponds to the finished products overdue or those that will expire within 6 months of the closing date of the balance sheet.

The realization of the provision for losses in the period corresponds to the write-offs of the products discarded by the Company.

6 TAXES RETRIEVABLE

| | 2018 | 2017 |
|---|------------------|----------------|
| IRPJ and CSLL to be compensated | 886,894 | 808,956 |
| IRRF retrievable | 118,280 | 476 |
| ICMS retrievable | 427,192 | 53,874 |
| PIS (Social Integration Program) and COFINS (Contribution to Social Security Financing) retrievable | 11,070 | 91,436 |
| Other taxes | - | 3,715 |
| Total | 1,443,436 | 958,457 |
| Current | 1,443,436 | 958,457 |

ZYDUS NIKKHO FARMACÊUTICA LTDA.

**EXPLANATORY NOTES OF THE MANAGEMENT REGARDING THE FINANCIAL STATEMENTS
AS OF DECEMBER 31st, 2018 (In Brazilian currency)**

7 OTHER ACCOUNTS RECEIVABLE

| | <u>2018</u> | <u>2017</u> |
|--------------------------|-------------|-------------|
| Advance to employees | 744,981 | 809,130 |
| Advance to third parties | 206,254 | 227,979 |
| Total | 951,235 | 1,037,109 |

8 ESCROW (NON-CURRENT ASSETS AND NON-CURRENT LIABILITIES)

| | <u>2018</u> | <u>2017</u> |
|-------------------------|-------------|-------------|
| Non-current assets | 10,950,359 | 10,401,450 |
| Non-current liabilities | 10,857,574 | 10,204,275 |

Refers to amounts retained as guarantee for possible contingencies arising from the former subsidiary Química e Farmacêutica Nikkho do Brasil Ltda., acquired in July, 2007. The amount retained is invested in the financial market and in 2018 its income was paid at an average rate of 6% (10.00% in 2017) per year. The amount will be refunded or discounted from the payments to the former shareholders of the company, within the period stipulated in the agreement entered into between the parties. The adjustment amount is recorded in Non-Current Liabilities.

9 LEGAL DEPOSITS

In some situations, due to legal requirements or the presentation of guarantees, legal deposits are made to ensure the continuity of the processes under discussion. These legal deposits may be required for proceedings whose likelihood of loss has been assessed by the Company as probable, possible or remote, based on the opinion of its legal counsel.

| | <u>2018</u> | <u>2017</u> |
|-------------|-------------|-------------|
| Civil | 396,908 | 396,908 |
| Labor | 2,370,264 | 3,308,453 |
| Tax | 581,384 | 581,384 |
| Total | 3,348,556 | 4,286,745 |
| Non-current | 3,348,556 | 4,286,745 |

10 PROPERTY, PLANT AND EQUIPMENT (FIXED ASSETS)

| | <u>Works/goods in progress</u> | <u>Buildings (Real Estate)</u> | <u>Machines and equipment and others</u> | <u>Improvements</u> | <u>Other assets</u> | <u>Total</u> |
|-------------------------------------|------------------------------------|--|--|---------------------|-------------------------|--------------|
| Cost of fixed assets (gross amount) | | | | | | |
| Balance in 2016 | 1,896,195 | 5,495,282 | 9,757,944 | 575,776 | 3,651,278 | 21,376,475 |
| Additions | 488,389 | | 13,815 | | 240,532 | 742,736 |
| Losses | | | (2,460) | | (142,201) | (144,661) |
| Transferences | (222,460) | 222,460 | 15,409 | | (27,811) | 7,000 |
| Balance in 2017 | 2,162,124 | 5,717,742 | 9,769,299 | 575,776 | 3,749,609 | 21,974,550 |
| Additions | 420,478 | | 962,797 | | 383,362 | 1,766,637 |
| Losses | | | | | (155,232) | (155,232) |
| Transferences | | | | | | |
| Balance in 2018 | 2,582,602 | 5,717,742 | 10,732,096 | 575,776 | 3,977,739 | 23,585,955 |

ZYDUS NIKKHO FARMACÊUTICA LTDA.

EXPLANATORY NOTES OF THE MANAGEMENT REGARDING THE FINANCIAL STATEMENTS
AS OF DECEMBER 31st, 2018 *(In Brazilian currency)*

| | <u>Works/goods in progress</u> | <u>Buildings (Real Estate)</u> | <u>Machines and equipment and others</u> | <u>Improvements</u> | <u>Other assets</u> | <u>Total</u> |
|---|------------------------------------|--|--|---------------------|-------------------------|--------------|
| Accumulated depreciation | | | | | | |
| Balance in 2016 | - | (1,948,145) | (6,432,879) | (532,769) | (2,712,167) | (11,625,960) |
| Depreciation | - | (225,167) | (622,745) | (16,502) | (311,438) | (1,175,852) |
| Losses | - | | 591 | | 137,487 | 138,078 |
| Transferences | - | | | | | - |
| Balance in 2017 | - | (2,173,312) | (7,055,033) | (549,271) | (2,886,118) | (12,663,734) |
| Depreciation | - | (225,498) | (553,747) | (12,045) | (299,062) | (1,090,352) |
| Losses | - | | | | 154,774 | 154,774 |
| Transferences | - | | | | | |
| Balance in 2018 | - | (2,398,810) | (7,608,780) | (561,316) | (3,030,437) | (13,599,343) |
| Net property, plant and equipment | | | | | | |
| Balance in 2017 | 2,162,124 | 3,544,430 | 2,714,266 | 26,505 | 863,491 | 9,310,816 |
| Balance in 2018 | 2,582,602 | 3,318,932 | 3,123,316 | 14,460 | 947,302 | 9,986,612 |

11 INTANGIBLE ASSETS

| | <u>Software</u> | <u>Improvements to the manufacturing process</u> | <u>Trademarks and patents</u> | <u>Goodwill</u> | <u>Total</u> |
|--|-----------------|--|-----------------------------------|-----------------|--------------|
| Cost of intangible assets (gross amount) | | | | | |
| Balance in 2016 | 3,389,310 | 2,345,437 | 3,052,941 | 36,724,675 | 45,512,363 |
| Additions | 470,253 | | | | 2470.253 |
| Losses | | | | | |
| Transferences | | | | | |
| Balance in 2017 | 3,859,563 | 2,345,437 | 3,052,941 | 36,724,675 | 45,982,616 |
| Additions | 45,361 | | | | 45,361 |
| Losses | | | | | |
| Transferences | | | | | |
| Balance in 2018 | 3,904,923 | 2,345,437 | 3,052,941 | 36,724,675 | 46,027,976 |
| Accumulated amortization | | | | | |
| Balance in 2016 | (1,045,295) | - | (52,941) | - | (1,098,236) |
| Amortization | (83,396) | | | | (83,396) |
| Losses | | | | | |
| Transferences | | | | | |
| Balance in 2017 | (1,128,691) | - | (52,941) | - | (1,181,632) |
| Amortization | (57,152) | | | | (57,152) |
| Losses | | | | | |
| Transferences | | | | | |
| Balance in 2018 | (1,185,843) | | (52,941) | | (1,238,784) |
| Net of intangible assets | | | | | |
| Balance in 2017 | 2,730,872 | 2,345,437 | 3,000,000 | 36,724,675 | 44,800,984 |
| Balance in 2018 | 2,719,080 | 2,345,437 | 3,000,000 | 36,724,675 | 44,789,192 |

Goodwill value is tested annually for verification of probable losses ("*impairment*"), considering the economic basis on which goodwill was acquired (future profitability).

ZYDUS NIKKHO FARMACÊUTICA LTDA.

EXPLANATORY NOTES OF THE MANAGEMENT REGARDING THE FINANCIAL STATEMENTS
AS OF DECEMBER 31st, 2018 *(In Brazilian currency)*

12 SUPPLIERS

| | 2018 | 2017 |
|----------------------------|-------------|-------------|
| National suppliers | 1,794,548 | 603,230 |
| Foreign suppliers | 763,336 | 1,401,921 |
| Related parties' suppliers | 30,815,442 | 12,513,440 |
| Total | 33,373,325 | 14,518,591 |

The payment schedule for non-derivative financial liabilities or suppliers for 2018 is as follows:

| | 2018 | 2017 |
|-------------------|-------------|-------------|
| Maturing debt | 13,114,369 | 9,159,108 |
| Goods in transit | 4,279,978 | - |
| Overdue: | | |
| From 1 to 30 days | 15,978,978 | 5,359,483 |
| Total | 33,373,325 | 14,518,591 |

13 TAX OBLIGATIONS

| | 2018 | 2017 |
|---|-------------|-------------|
| ICMS to be collected | 675,000 | 659,963 |
| IRRF, PIS, COFINS, CSLL and ISS to be collected | 521,239 | 670,702 |
| IRPJ and CSLL payable | - | 277,984 |
| PIS and COFINS to be collected | 1,193,156 | 1,555,982 |
| Total | 2,389,395 | 3,164,631 |

14 WAGES, CHARGES AND HOLIDAYS

| | 2018 | 2017 |
|--|-------------|-------------|
| INSS (Social Security National Institute) | 704,761 | 645,787 |
| FGTS (Government Severance Indemnity Fund for Employees) | 230,142 | 206,584 |
| Vacation and social charges payable | 2,984,717 | 2,979,086 |
| Others | 35,981 | 45,454 |
| Total | 3,955,601 | 3,876,911 |

15 OTHER OBLIGATIONS

| | 2018 | 2017 |
|-----------------------------------|-------------|-------------|
| Electric energy payable | 105,144 | 96,777 |
| Water and sewage services payable | 20,835 | 18,232 |
| Insurance payable | 49,248 | 10,063 |
| Rent payable | 224,408 | 103,754 |
| Clients' advances | - | 118,627 |
| Other accounts payable | 1,114,409 | 791,738 |
| Freights payable | 173,166 | 63,270 |
| Credit cards payable | 121,560 | 121,125 |
| Total | 1,808,770 | 1,323,586 |

ZYDUS NIKKHO FARMACÊUTICA LTDA.

**EXPLANATORY NOTES OF THE MANAGEMENT REGARDING THE FINANCIAL STATEMENTS
AS OF DECEMBER 31st, 2018 (In Brazilian currency)**

16 PROVISIONS FOR CIVIL, TAX AND LABOR RISKS

The Company is a party to lawsuits and administrative proceedings before various courts and government agencies, arising from the course of its operations and involving labor issues, civil aspects and other matters. Management constituted the following constant provision based on the information of its legal counsel after analysis of pending legal claims and regarding labor claims, considering previous experience of loss percentage in relation to amounts claimed. Management considers its amount sufficient to cover the probable estimated losses from the current lawsuits.

Movement of the provision for civil, tax and labor risks:

| 2018 | <u>Opening balance</u> | <u>Additions</u> | <u>Payments</u> | <u>Final balance</u> |
|--------------|----------------------------|------------------|--------------------|--------------------------|
| Civil – (i) | 391,613 | - | - | 391,613 |
| Labor | 8,445,952 | 58,510 | (1,558,776) | 6,945,686 |
| Total | <u>8,837,565</u> | <u>58,510</u> | <u>(1,558,776)</u> | <u>7,337,299</u> |

(i) The civil cases refer to proceedings with ANVISA;

Management did not make the discount in present value because the money at the time was not material, as interpreted by items 45 to 47 of CPC 25. Management and its legal advisors disclose for accounting purposes compliance with contingency arising from Labor, Civil and Tax Proceedings, with a loss considered "Possible":

| 2018 | <u>Causes with Possible probability</u> |
|--------------|---|
| Civil | 391,613 |
| Labor | 6,945,686 |
| Total | <u>7,337,299</u> |

17 RELATED PARTIES

On December 31st, 2018 and 2017, balances and transactions with related parties are as follows:

| | <u>2018</u> | <u>2017</u> |
|--|-------------------|-------------|
| Liabilities | | |
| Cadila Healthcare Limited | 30,815,442 | 12,513,440 |
| Current | 30,815,442 | 12,513,440 |
| Goods for resale: | | |
| Purchase of Cadila Healthcare Limited products | 26,542,059 | 19,468,394 |
| Goods in transit Cadila Healthcare Limited | 4,279,978 | - |
| Total | 30,822,037 | |

Balances of business transactions between related parties.

ZYDUS NIKKHO FARMACÊUTICA LTDA.

EXPLANATORY NOTES OF THE MANAGEMENT REGARDING THE FINANCIAL STATEMENTS
AS OF DECEMBER 31st, 2018 *(In Brazilian currency)*

18 CAPITAL STOCK:

On December 31st, 2018, the Company's fully subscribed and paid-in capital stock, in the amount of BRL 145,720,724.00, was represented by 145,720,724 nominative shares, with a nominal value of BRL 1.00 each, as follows:

| | 2018 | 2017 |
|----------------------|--------------------|--------------------|
| Zydus Netherland BV | 145,720,154 | 145,720,154 |
| PatelPankajRamanbhai | 570 | 570 |
| Total | 145,720,724 | 145,720,724 |

19 INSURANCE COVERAGE (unaudited)

The Company maintains insurance for certain fixed assets, as well as for civil liability and other contractual guarantees. The summary of the policies in force on December 31st, 2018 is as follows:

| Object of Guarantee | Insured Amount | Validity |
|---------------------------------------|-----------------------|--------------------------|
| Pharmaceuticals, building and content | 159,689,078 | 08/10/2018 to 08/10/2019 |
| Vehicles | 215,000 | 06/01/2018 to 06/01/2019 |
| Tablets | 245,089 | 04/28/2018 to 04/28/2019 |
| Electronic equipment | 363,043 | 06/01/2018 to 04/28/2019 |
| IPAD | 490,725 | 08/22/2018 to 04/28/2019 |
| Civil liability | 1,620,000 | 02/28/2018 to 02/28/2019 |
| National Transportation | 1,500,000 | 03/01/2018 to 02/28/2019 |

20. NET REVENUE

| | 2018 | 2017 |
|------------------------------|--------------------|--------------------|
| Gross revenue | 404,457,214 | 352,221,518 |
| Returns, discounts and other | 253,854,952 | 225,364,324 |
| Taxes on sales | 21,668,350 | 19,074,643 |
| Net revenue | 128,933,912 | 107,782,551 |

21. NATURAL EXPENSES

| Cost of Products and Goods Sold | 2018 | 2017 |
|--|---------------------|---------------------|
| Raw materials, packaging and goods for resale | (39,781,170) | (28,546,361) |
| Materials, energy, third-party services and others | (6,086,067) | (5,583,647) |
| Personnel expenses | (6,094,587) | (6,743,809) |
| Depreciation and amortization | (724,507) | (782,414) |
| Total | (52,686,331) | (41,656,231) |

ZYDUS NIKKHO FARMACÊUTICA LTDA.

EXPLANATORY NOTES OF THE MANAGEMENT REGARDING THE FINANCIAL STATEMENTS
AS OF DECEMBER 31st, 2018 *(In Brazilian currency)*

| Administrative and Commercial Expenses | 2018 | 2017 |
|--|---------------------|---------------------|
| Materials, energy, third-party services and others | (10,178,255) | (8,234,788) |
| Marketing, sales force and other expenses with sales | (23,650,921) | (20,970,433) |
| Other administrative expenses | (6,633,349) | (5,272,180) |
| Personnel expenses | (35,613,380) | (31,438,915) |
| Depreciation and amortization | (422,996) | (476,754) |
| Total | (76,498,901) | (66,393,070) |

22. OTHER OPERATIONAL REVENUES (EXPENSES), NET

| | 2018 | 2017 |
|---|------------------|----------------|
| Provisions for tax, civil and labor risks | (58,510) | - |
| Provision for miscellaneous inventories/losses | (769,555) | (1,331,520) |
| Income from sale of fixed assets | 4,824 | 37,686 |
| Recovery of expenses (*) | 1,188,173 | 148,887 |
| Occasional revenues | 963,512 | - |
| Reversal of provisions for tax, civil and labor risks | 1,568,095 | 1,399,314 |
| Reversal of provision for inventory losses | - | 33,491 |
| Losses receivable from doubtful accounts | (400,000) | - |
| Others | 127,702 | 50,851 |
| Total | 2,624,241 | 338,709 |

(*) Resurgence of Permit of labor authorization process settled in 2016

23. FINANCIAL RESULT

| | 2018 | 2017 |
|--|--------------------|--------------------|
| Financial expenses: | | |
| Interests | (28,786) | (57,996) |
| Bank fees | (247,752) | (323,007) |
| Tax Expenses on | | |
| Financial Operations - IOF | (2,230) | (5,222) |
| Discounts given | (364,167) | (150,871) |
| Escrow charges | (653,299) | (1,542,410) |
| Total expenditure | (1,296,234) | (2,079,506) |
| Financial revenue: | | |
| Interest on delinquency of accounts receivable | 545,510 | 17,814 |
| Income from financial investments | 748,468 | 1,639,946 |
| Discounts obtained | 12,030 | 22,196 |
| Active monetary variation | 103,464 | |
| Total revenue | 1,409,472 | 1,679,956 |
| Net exchange variation | (2,303,133) | (281,916) |
| Financial result | (2,189,895) | (681,466) |

24. RISK MANAGEMENT

The Company participates in operations involving financial instruments, which are fully recorded in equity accounts. These operations are designed to meet the needs of maximizing the profitability of the net cash resources and raising funds needed to maintain working capital and the provision of its investment plan.

ZYDUS NIKKHO FARMACÊUTICA LTDA.

EXPLANATORY NOTES OF THE MANAGEMENT REGARDING THE FINANCIAL STATEMENTS AS OF DECEMBER 31st, 2018 (In Brazilian currency)

Market value of financial instruments

Considering that maturity occurs on a date close to the balance sheet date, the carrying amount due approximates the market value of cash and cash equivalents (cash, banks and short-term investments), trade accounts receivable and current liabilities. The balance of the financing is monetarily restated based on variable interest rates due to market conditions. Therefore, the outstanding balance at the balance sheet date is close to the market value.

Risk management

The Company has procedures for preventive and detective controls that monitor its exposure to credit risks, already disclosed in note 4, liquidity risks, market risks and risks related to the Company and its operations.

Liquidity Risk

Company Management monitors continuous forecasts of the Company's liquidity requirements to seek sufficient cash to meet operating needs. The Company may need to obtain additional funds through bank loans or capital increase.

Market risk management

The Company is exposed to market risks arising from its activities. These market risks, which are beyond its control, mainly involve the possibility that changes in interest rates, exchange rates and inflation may negatively affect the value of its financial assets or cash flows and future income. Market risk is the possible loss resulting from adverse changes in market rates and prices. The mitigation of this risk occurs through the application of procedures to evaluate the exposure of assets and liabilities to market risk and, consequently, the contracting of hedge in the top financial institutions, when necessary.

The Company becomes exposed to risks of the dollar variation as of December 31st, 2018. In order to provide information on how these variations might behave, we present next the possible changes, from 25% to 50%, in the relevant risk variables regarding net exposure in foreign currency (international suppliers). The exposure to the CDI was not disclosed due to the fact that the company does not have any balances with loans and financing.

The assumptions for the calculation for foreign suppliers are:

- Scenario I: Current loss - Based on the result of exchange variation in the year ended on December 31st, 2018;
 - Scenario II: 25% increase in US dollar - Based on liabilities in foreign currency as of December 31st, 2018;
 - Scenario III: 50% increase in US dollar - Based on liabilities in foreign currency as of December 31st, 2018.
- In the table below, we show the possible impacts on the Company's results, with the devaluation of Brazilian currency (BRL):

| | |
|---|--------------|
| Scenario I – Current – Gain or (Loss) in the result for the year | (2,303,133) |
| USD Balance on December 31st, 2018 | 7,045,215 |
| Scenario II – Increase of 25% - Foreign exchange loss in the income for the year | (6,824,700) |
| Scenario III - Increase of 50% - Foreign exchange loss in the income for the year | (13,649,400) |

25. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The company classifies the financial instruments according to the purpose for which they were acquired, determining the classification upon the initial recognition according to the following categories:

ZYDUS NIKKHO FARMACÊUTICA LTDA.

EXPLANATORY NOTES OF THE MANAGEMENT REGARDING THE FINANCIAL STATEMENTS
AS OF DECEMBER 31st, 2018 *(In Brazilian currency)*

| | 2018 | 2017 |
|---|--|--|
| | Amortized Cost or Fair Value by means of the Result | Amortized Cost or Fair Value by means of the Result |
| Current Financial Assets | | |
| Cash and Cash Equivalents ("VJR") | 2,101,163 | 2,855,420 |
| Accounts Receivable from clients ("CA") | 43,591,044 | 38,330,828 |
| Other Current Assets ("CA") | 951,235 | 1,037,109 |
| TOTAL Financial Assets | 46.643,442 | 42,223,357 |
| Current Financial Liabilities | | |
| Suppliers ("CA") | 33,373,325 | 14,518,591 |
| Other Obligations ("CA") | 1,808,770 | 1,323,586 |
| TOTAL Financial Liabilities | 35,182,095 | 15,842,177 |

26. REMUNERATION OF MANAGERS

The total compensation of the directors of the company is composed of fixed remuneration, which includes wages, salaries and social security contributions. In 2018, the total compensation was BRL 1,173,816 (BRL 781,569 in 2017).

During the years 2018 and 2017, there was no remuneration related to post-employment benefits, termination benefits, other long-term benefits or stock-based compensation.

27. SUBSEQUENT EVENTS

In accordance with IAS 10 - Subsequent Events, there were no facts or transactions that had an impact on the financial statements.

Manager

Fredrick Donald Renison

Accountant

Gilson Antonio da Silva
CRC No. RJ 67027/O-0

