

Torrent do Brasil
Ltda.

Financial statements
March 31, 2018 and 2019

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Independent auditors' report on the financial statements

To

The Quotaholders of

Torrent do Brasil Ltda.

São Paulo - SP

Opinion

We have audited the financial statements of Torrent do Brasil Ltda. ("the Company"), which comprise the statement of financial position as at March 31, 2019, the statements of operations and other comprehensive income, changes in quotaholders's equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Torrent do Brasil Ltda. as at March 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with Accounting Practices Adopted in Brazil.

Basis for Opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the relevant ethical requirements included in the Accountant Professional Code of Ethics ("Código de Ética Profissional do Contador") and in the professional standards issued by the Brazilian Federal Accounting Council ("Conselho Federal de Contabilidade") and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 Brazilian and international standards on auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian and international standards on auditing, 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 auditors' 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 auditors' 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 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

São Paulo, May 10, 2019

KPMG Auditores Independentes
CRC SP014428/O-6



Marcelo Pereira Gonçalves

Accountant CRC 1SP220026/O-3

Torrent do Brasil Ltda.

Balance sheet as of march 31, 2019 and 2018

(amounts expressed in thousands brazilian Reais - R\$)

Asset	Note	2019	2018	Liability	Note	2019	2018
Current				Current			
Cash and cash equivalents	5	8,929	19,505	Suppliers		9,559	11,533
Trade accounts receivables	6	108,329	115,637	Related parties	12	131,368	74,797
Inventories	7	57,833	36,502	Loans with related parties	12	-	58,853
Taxes recoverable	8	3,456	655	Current income tax	13	17,371	16,882
Advances to employees		162	338	Tax liabilities	13	6,364	6,777
Other assets		3,141	4,513	Labor liabilities	14	12,703	10,561
				Unrealized losses on derivatives		254	1,013
Total current asset		181,850	177,150	Total current liability		177,619	180,416
Non-current				Non-current			
Judicial deposits		2,756	5,378	Provision for contingencies	15	28,682	17,311
Deferred tax	9	34,204	29,359	Labor liabilities	14	1,968	-
Fixed assets	10	9,183	10,360				
Intangible	11	235	385				
Total non-current asset		46,378	45,482	Total non-current liability		30,650	17,311
				Equity			
				Capital subscribed	16	25,000	25,000
				Capital to be subscribed	16	(5,856)	(5,856)
				Accumulated results		815	5,761
				Total Equity		19,959	24,905
Total asset		228,228	222,632	Total liability + equity		228,228	222,632

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

Torrent do Brasil Ltda.

Statement of operations

For the years ended march 31, 2019 and 2018

(Amounts expressed in thousands Brazilian Reais - R\$)

	Note	2019	2018
Revenue	17	365,839	348,425
Cost of sales	18	(183,625)	(137,659)
Gross profit		182,214	210,766
Sales expenses	19	(147,404)	(121,709)
Administrative expenses	19	(31,908)	(31,630)
Income before net financial income and taxes		2,902	57,427
Financial revenues	20	1,658	1,374
Financial expenses	20	(9,466)	(14,517)
Net financial result		(7,808)	(13,143)
Profit before taxes	-	4,906	44,284
Current income tax and social contribution	9	(4,886)	(13,332)
Deferred income tax and social contribution	9	4,846	(3,973)
Income tax and social contribution		(40)	(17,305)
Results for the year		-4,946	26,979

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

Torrent do Brasil Ltda.

Statement of comprehensive income (loss)

For the year ended march 31, 2019 and 2018

(Amounts expressed in thousands Brazilian Reais - R\$)

	2019	2018
Results for the year	- 4,946	26,979
Other comprehensive income	-	-
Total of other comprehensive profit	- 4,946	26,979

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

Torrent do Brasil Ltda.

Statement of changes in shareholders' equity

For the years ended march 31, 2019 and 2018

(Amounts expressed in thousands Brazilian Reais - R\$)

	Note	Capital subscribed	Capital to be subscribed	Accumulated results	Total
Balances as of march 31	2017	25,000	(5,856)	(21,218)	(2,074)
Results for the year		-	-	26,979	26,979
Balances as of march 31	2018	25,000	(5,856)	5,761	24,905
Results for the year		-	-	4,946	4,946
Balances as of march 31	2019	25,000	(5,856)	815	19,959

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

Torrent do Brasil Ltda.

Statement of cash flows

For the years ended march 31, 2019 and 2018

(Amounts expressed in thousands Brazilian Reais - R\$)

	Note	2019	2018
Cash flow from operating activities			
Results for the year	-	4,946	26,978
Adjustments for:			
Depreciation and amortization	10 e 11	1,762	1,801
Disposal of fixed assets	10	10	76
Loss through impairment of customers	6	(2,337)	135
Provision for inventory write-off and impairment	7	22,174	(731)
Gain / Loss on open derivative contracts	20	(22,408)	2,356
Deferred income tax	9	4,846	17,305
Accrued payroll and related charges	14	952	-
Provision for discounts/returns	6	4,102	-
Provision for expenses		(5,021)	-
Provisions for labor, tax and civil risks	15	11,371	(1,920)
Interest on loans		-	5,550
Foreign exchange		-	6,116
		813	57,666
Changes in:			
Trade accounts receivable	6	5,543	(10,802)
Inventories	7	(43,505)	8,616
Taxes recoverable	8	(2,801)	9,940
Advances to employees		176	269
Other assets		1,372	556
Judicial deposits		2,622	(1,027)
Suppliers		3,049	4,407
Related Parties	12	56,571	(6,077)
Tax liabilities	13	(413)	4,351
Current income tax and social contribution	13	7,256	-
Labor liabilities	14	3,158	967
Cash generated from operating activities		33,841	68,866
Gain / (loss) on realized hedge	20	21,649	(22,753)
Interest paid	12	(3,591)	(5,187)
Income taxes paid	13	(6,767)	(8,253)
Net cash from operating activities		45,132	32,673
Cash flows from investing activities			
Acquisition of property, plant and equipment	10 e 11	(446)	(735)
Net cash used in investing activities		(446)	(735)
Cash flows from financing activities			
Intercompany loan paid	12	(55,262)	(20,431)
Net cash from financing activities		(55,262)	(20,431)
Net decrease in cash and cash equivalents		(10,576)	11,507
Cash and cash equivalents at 1 April	5	19,505	7,998
Cash and cash equivalents at 31 March	5	8,929	19,505
Cash and cash equivalents at 31 March		(10,576)	11,507

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

Notes to the financial statements

(in thousands of reais)

1 Operational context

Torrent do Brasil Ltda. ("Company"), located at Avenida Dr Chucri Zaidan, 1240, in the city of São Paulo, state of São Paulo, is a subsidiary of Torrent Pharmaceuticals Ltd, India, incorporated as a limited liability company in Brazil.

The Company's activity includes the import, storage, distribution, sale and export of chemical products, drugs, pharmaceuticals and allopathic, phytotherapeutic, homeopathic, hygiene, cosmetics, food supplements and related medicines. The portfolio currently marketed includes products from the Cardiovascular, Central Nervous System and Oral Anti-Diabetes segments.

2 Basis of preparation

a. Statement of conformity

These financial statements are prepared in accordance with accounting practices adopted in Brazil.

The issuance of these financial statements was authorized by the Company's Management on May 10, 2019.

This is the Group's first set of annual financial statements in which CPC 47 - Revenue from Contracts with Customers and CPC 48 - Financial Instruments were applied. Changes in significant accounting policies are presented in Note 4.

b. Basis of measurement

The financial statements were prepared on historical cost basis, with the exception of derivative financial instruments measured at fair value through profit or loss.

c. Functional currency and presentation

These financial statements are presented in Brazilian Reais, which is the Company's functional currency. All balances are in thousands of reais (R\$), except when otherwise indicated.

d. Use of estimates and judgments

In preparing these financial statements, management has used judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and assumptions are continuously reviewed. Revisions to estimates are recognized prospectively.

Uncertainties and judgments about assumptions and estimates

Information on critical judgments related to the accounting policies adopted that have effects on the amounts recognized in the financial statements is included in the following notes:

- **Note 6** - recognition and measurement of the expected provision for credit losses:

The company recognizes an expected credit loss on accounts receivable, 100% of outstanding customer securities over 180 days from their maturity.

- **Note 7** - Provisions for inventory losses by validity or slow moving:

The provision for inventory losses is recognized, when applicable, for products with a maturity of less than 12 months or for items that the Company concludes will probably not be sold in the near future.

- **Note 9** - Deferred income tax and social contribution: availability of future taxable income against which tax losses may be utilized:

The Company recognizes deferred assets and liabilities based on the differences between the carrying amount presented in the financial statements and the tax basis of assets and liabilities, using the current tax. Management regularly reviews deferred tax assets in terms of recoverability, considering the historical profit generated and the projected future taxable profit, in accordance with a technical feasibility study.

- **Note 15** - Provision for contingencies:

The provision for contingencies is recognized based on the opinion of external and internal lawyers, considering the probability of an outflow of reserves.

Fair value measurement

Specific Company's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Company uses observable market data as much as possible. Fair values are classified at different levels in a hierarchy based on the information (inputs) used in valuation techniques as follows.

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets and liabilities.
- **Level 2:** inputs, except for quoted prices included in Level 1, which are observable for the asset or liability, directly (prices) or indirectly (price derivative).
- **Level 3:** inputs, for the asset or liability, that are not based on observable market data (unobservable inputs).

Additional information on the assumptions used in the measurement of fair values is included in explanatory note 21 - Financial instruments

3 Significant accounting policies

The main accounting policies used in the preparation of the financial statements are summarized below. These policies are consistent with those adopted in the previous period, unless otherwise indicated:

a. Foreign currency transaction, translation and foreign operations

Foreign currency transactions are recorded at exchange rates prevailing on the date of the transaction. The net gain or loss on account of exchange differences arising on settlement of foreign currency transactions are recognized as income or expense of the period in which they arise. Monetary assets and liabilities denominated in foreign currency as at the balance sheet date are translated at the closing rate. The resultant exchange rate differences are recognized in the statement of profit and loss. Foreign exchange differences regarded as an adjustment to borrowing costs are presented in the statement of profit and loss, within finance costs. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

Foreign operations

Assets and liabilities of entities with functional currency other than presentation currency have been translated to the presentation currency using exchange rates prevailing on the balance sheet date. Statement of profit and loss has been translated using weighted average exchange rates. Translation adjustments have been reported as foreign currency translation reserve in the statement of changes in equity.

b. Cash and cash equivalents

Cash and cash equivalents consists of cash on hand, short demand deposits and highly liquid investments, that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value. Short term means investments with original maturities / holding period of three months or less from the date of investments. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalent for the purpose of statement of cash flow.

c. Borrowings

Borrowings are initially recorded at fair value and subsequently measured at amortized costs using effective interest method. Transaction costs are charged to statement of profit and loss as financial expenses over the term of borrowing.

d. Trade payables

Trade payables are amounts due to vendors for purchase of goods or services acquired in the ordinary course of business and are classified as current liabilities to the extent it is expected to be paid within the normal operating cycle of the business.

e. Trade accounts receivable

Trade receivables are amounts due from customers for sale of goods or services performed in the ordinary course of business. Trade receivables are initially recognized at its transaction price which is considered to be its fair value and are classified as current assets as it is expected to be received within the normal operating cycle of the business.

f. Inventories

Inventories are carried at the lower of cost and net realizable value.

The cost incurred in bringing the inventory to their existing location and conditions are determined as follows:

c. Finished goods (traded) - Purchase cost on a moving average basis.

The cost of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recovered by the Company from taxing authorities), and transport, handling and other costs directly attributable to bringing the inventory to their existing location and conditions. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sales.

The Company considers various factors like shelf life, ageing of inventory, product discontinuation, price changes and any other factor which impact the Company's business in determining the allowance for obsolete, non-saleable and slow moving inventories. The Company considers the above factors and adjusts the inventory provision to reflect its actual experience on a periodic basis.

g. Fixed Assets

Fixed assets are stated at cost of acquisition or construction less accumulated depreciation and any accumulated impairment losses. The cost of fixed assets comprises of its purchase price, non-refundable taxes & levies, freight and other incidental expenses related to the acquisition and installation of the respective assets. Borrowing cost attributable to financing of acquisition or construction of the qualifying fixed assets is capitalized to respective assets when the time taken to put the assets to use is substantial.

When major items of fixed assets have different useful lives, they are accounted for as separate items of property, plant and equipment. The cost of replacement of any property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefit associated with the item will flow to the Company and its cost can be measured reliably.

Pre-operative expenditure comprising of revenue expenses incurred in connection with project implementation during the period upto commencement of commercial production are treated as part of the project costs and are capitalized. Such expenses are capitalized only if the project to which they relate, involve substantial expansion of capacity or upgradation.

An item of the fixed assets is derecognized upon disposal or when no future economic benefits are expected to arise from its use. Difference between the sales proceeds and the carrying amount of the asset is recognized in statement of profit and loss.

Freehold land is carried at historical cost and not depreciated. Depreciation on fixed assets is provided using straight-line method based on useful life of the assets estimated by the

management. The estimated useful lives, residual values and depreciation method are reviewed at each financial year-end and changes in estimates, if any are accounted for on a prospective basis.

The estimated useful lives of fixed assets are:

	Useful life (Years)
Computers and accessories	5
Installation	10
Machinery and equipment	10
Furniture	10
Vehicles	5
Under construction	-

h. Intangible

Intangible assets acquired separately are measured at cost of acquisition. Intangible assets acquired under business combination are measured at fair value as of the date of business combination. Following initial recognition, intangible assets are carried at cost less accumulated amortization and impairment losses, if any.

Intangible assets are amortized over their respective estimated useful life using straight-line method. The estimated useful life of amortizable intangibles is reviewed at the end of each reporting period and change in estimates if any are accounted for on a prospective basis.

The estimated useful lives of intangibles are as mentioned below:

	Useful life (Years)
Software	5

i. Provision for impairment of non-financial assets

Property, plant and equipment and intangible assets with finite life are evaluated for recoverability whenever there is any indication that their carrying amounts may not be recoverable. If any such indication exists, the recoverable amount (i.e. higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. In such cases, the recoverable amount is determined for the cash generating unit (CGU) to which the asset belongs.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized in the statement of profit and loss to such extent. When an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, such that the increase in the carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been

recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in statement of profit and loss.

j. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue from sale of goods includes excise duty and are net of discounts, applicable taxes, rebates, chargeback, medicaid payments and estimated returns.

A chargeback claim is made by the wholesaler for the difference between the price at which the product is initially invoiced to the wholesaler and the net price at which it is agreed to be sold to the third parties. Provision / accruals for chargeback, rebates, returns and medicaid payments are estimated on the basis of historical experience, market conditions and specific contractual terms. The methodology and assumptions used to estimate rebates and returns are monitored and adjusted regularly in line with contractual and legal obligations, trade practices historical trends, past experience and projected market conditions.

The revenue is recognized when the significant risks and rewards of ownership of goods are transferred to the buyer, recoverability of consideration is probable, the amount of revenue and cost incurred or to be incurred in respect of the transaction can be measured reliably and there is no continuing managerial involvement over the goods sold.

Income from services is recognized when the services are rendered or when contracted milestones have been achieved.

Revenue from arrangements which includes performance of obligations is recognized in the period in which the Company completes all its performance obligations.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

k. Provisions and provisions for contingent

Provisions for contingent

A possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company or; present obligation that arises from past events where it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability are disclosed as contingent liability and not provided for.

Provisions

A provision is recognized when as a result of a past event, the Company has a present obligation whether legal or constructive that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. If the obligation is expected to be settled more than 12 months after the end of reporting date or has no definite settlement date, the provision is recorded as non-current liabilities after giving effect for time value of money, if material. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

I. Tax

Income tax and social contribution include current and deferred taxes.

Current income tax

The provision for income tax and social contribution is based on taxable income for the year. Taxable profit differs from profit presented in the income statement because it excludes income or expenses taxable or deductible in other years, in addition to permanently excluding non-taxable or non-deductible items.

The provision for income tax is calculated based on the tax rate considering the tax benefits on operating income. The provision for social contribution is calculated based on the tax rate valid for the year. The amounts of income tax and social contribution are calculated at the rates of 25% and 9%, respectively.

Management periodically evaluates the positions assumed by the Company in the determination of income taxes with respect to situations in which the applicable tax regulations give rise to interpretations. Establishes provisions, when appropriate, based on the estimated values of payment to the tax authorities.

Deferred income tax

Deferred income tax and social contribution ("deferred tax") is recognized on temporary differences at the end of each reporting period between the balances of assets and liabilities recognized in the financial statements and the corresponding tax bases used in determining taxable income, including the balance of tax losses, when applicable.

Deferred tax liabilities are generally recognized on all taxable temporary differences and deferred tax assets are recognized on all deductible temporary differences, only when it is probable that the company will present future taxable profit in an amount sufficient for such deductible temporary differences to be utilized.

The recovery of the balance of deferred tax assets is reviewed at the end of each reporting period and, when it is no longer probable that future taxable profits will be available to allow the recovery of all or part of the asset, the balance of the asset is adjusted by the amount that is expected to be recovered.

Deferred tax assets and liabilities are measured at the rates applicable in the period in which the liability is expected to be settled or the asset to be realized, based on the rates established in the tax legislation in effect at the end of each reporting period, or when new legislation has been substantially approved.

Deferred tax assets and liabilities are offset only if certain criteria are met.

m. Financial Instruments

Derivative financial instruments and hedge accounting

The Company enters into derivative financial instruments to manage its foreign exchange rate risk. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in statement of profit and loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in statement of profit and loss depends on the nature of the hedging relationship and nature of hedged items.

Derivative financial instruments that hedges foreign currency risk associated with highly probable forecasted transactions are designated as cash flow hedges and valued at fair value. The effective portion of such hedges is recorded in cash flow hedge reserve, as a component of equity, and re-classified to the statement of profit and loss as in the period corresponding to the occurrence of the forecasted transactions. The ineffective portion of such hedges is recorded in statement of profit and loss immediately.

4 Changes in significant accounting policies

The Company initially applied CPC 47 and CPC 48 as of April 1, 2018. A number of other new standards also became effective as of January 1, 2018, but did not materially affect the Company's financial statements.

Due to the transition methods chosen by the Company in the application of these standards, the comparative information in these financial statements was not restated to reflect the requirements of the new standards.

a. New standards and interpretations adopted

CPC 48 - Financial instruments

The standard presents changes in classification and measurement, mainly for impairment and hedge accounting:

- (i) Regarding the classification and measurement of financial assets, the following categories are presented: fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) and amortized cost. These shall be defined according to the characteristic and purpose of the financial instrument. CPC 48/IFRS 9 deletes the old CPC 38/IAS 39 categories of held-to-maturity securities, loans and receivables and available-for-sale. In accordance with IFRS 9, embedded derivatives in which the host contract is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument is evaluated for classification as a whole.
- (ii) Impairment of financial assets: CPC 48 replaces the 'incurred losses' model of IAS 39 with a 'expected credit losses' model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt instruments measured at FVOCI, but not to investments in equity instruments. Under CPC 48, credit losses are recognised earlier than under CPC 38 / IAS 39 - See explanatory note

The Company did not determine any impact on the carrying amounts in its balance sheet or shareholders' equity when adopting the measurement requirements of CPC 48.

The following table and the explanatory notes below explain the original measurement categories in CPC 38 and the new measurement categories in CPC 48 for each class of the Group's financial assets and liabilities on January 1, 2018. The effect of the adoption of CPC 48 on the carrying amounts of financial assets on January 1, 2018 is related only to the new impairment requirements.

	Measurement Basis - CPC 38	Measurement Basis - CPC 48
Financial assets		
Cash and cash equivalents	Fair value through profit or loss	Amortized cost
Trade accounts receivables	Loans and receivables	Amortized cost
Financial liabilities		
Suppliers	Amortized cost	Amortized cost
Related parties - payables	Amortized cost	Amortized cost
Related parties - loans	Amortized cost	Amortized cost
Unrealized losses on derivatives	Fair value through profit or loss	Fair value through profit or loss

Due to the fact that losses with uncollectible securities are not material in the Company and identified risks with our customers, we did not have significant impacts arising from this new provisioning criterion.

The Company adopted CPC 48 using the cumulative effect method (without practical expedients), with the effect of initial application of the standard on January 1, 2018. Consequently, the information presented for 2018 was not restated - that is, it is presented, as previously reported, under CPC 38 and related interpretations. In addition, the disclosure requirements of CPC 47 in general were not applied to the comparative information.

CPC 47 Revenue from contract with customers

Effective April 1, 2018, the Company has applied CPC 47 Revenue from Contracts with Customers, which outlines single comprehensive model for accounting of revenue arising from contracts with customers and supersedes CPC 30 Revenue contracts. The Company applied CPC 47 using the modified retrospective approach.

Revenue is measured based on the transaction price adjusted for discounts and rebates, which is specified in a contract with customer. Revenue are net of estimated returns and taxes collected from customers.

Revenue from sale of goods is recognized at point in time when control are transferred to the customer and it is probable that consideration will be collected. Control of goods is transferred upon the shipment of the goods to the customer or when goods is made available to the customer, provided the Company has not retained any significant risks of ownership or future obligations in respect to the goods shipped.

The transaction price is documented on the sales invoice and payment is generally due as per agreed credit terms with customer.

Sales returns are estimated on the basis of historical experience, market conditions and specific contractual terms and provided for in the year of sale as reduction from revenue. The methodology and assumptions used to estimate returns are monitored and adjusted regularly in line with contractual and legal obligations, trade practices, historical trends, past experience and projected market conditions.

Revenue from services is recognized at the point in time when the services are performed or when contracted milestones have been achieved.

b. New standards and interpretations not yet effective

CPC 06 (R2) - Leases

CPC 06 (R2) Leases supersede CPC 06 (R1), Leases. The new standard introduces single lease accounting model for the lessees under which all major leases are recognised on-balance sheet, removing the lease classification test. Lease assets are initially recognised as right of use asset and subsequently measured using the cost model. Lease liabilities are initially measured at present value of future lease payments and subsequently adjusted for interest, payments and remeasurement, if any. Exemption is provided for short-term leases and low value underlying items. Lease accounting for lessors essentially remains unchanged except for additional guidance and new disclosure requirements. The company is evaluating the impact of CPC 06 (R2) on its financial statements and plans to adopt on the required effective date using the practical expedients.

Transition

The Company intends to apply CPC 06(R2) initially on April 1, 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting CPC 06(R2) will be recognized as an adjustment to the opening balance of retained earnings on April 1, 2019, without updating the comparative information. The Company plans to apply the practical expedient in relation to the definition of lease contract in the transition. This means that it will apply CPC 06(R2) to all agreements entered into before April 1, 2019 that were identified as leases in accordance with CPC 06(R1) and ICPC 03. The standard provides for exemptions in the applicability to short-term leases and low value assets involved in the transaction.

The Company is in the process of evaluating the potential impact that the initial application of CPC 06 (R2) will have on the consolidated financial statements, as described below. The actual impacts of the adoption of the standard as from April 1, 2019 may, due to the new accounting policies, be subject to change until the Company presents its first financial statements that include the date of initial application.

Other standards

The following amended standards and interpretations are not expected to have a material impact on the Company's financial statements:

- IFRIC 23/ICPC 22 Uncertainty about Taxes on Profits Treatment.
- Characteristics of Prepayment with Negative Remuneration (Amendments to IFRS 9).
- Investment in Associates, Subsidiaries and Joint Ventures (Changes in CPC 18(R2) / IAS 28).
- Amendments to the Plan, Reductions or Liquidation of the Plan (Amendments to CPC 33 / IAS 19).
- Cycle of annual improvements in IFRS 2015-2017 - various standards.
- Changes in references to the conceptual framework in IFRS standards.
- IFRS 17 Insurance contracts

5 Cash and cash equivalents

	2019	2018
Cash and banks	7.227	825
Certified bank deposit (CDB)	1.702	18.679
	8.929	19.505

As of 31st March 2019, the weighted average interest over bank deposit (CDB) was 96% of CDI (Certified Interbank Deposits) reference rate (96% - 2018).

6 Trade accounts receivable

	2019	2018
National	125.629	131.172
Provision for doubtful accounts	(385)	(2.722)
Provision for sales returns and claims (*)	(16.915)	(12.813)
	108.329	115.637

(*) Related to the estimate of expected returns and discounts.

a. The balances of trade accounts receivable by age of maturity are shown below:

	2019	2018
	121.246	125.164

Not yet due		
Past due		
1 to 30 days	2.278	3.184
31 to 60 days	134	235
61 to 90 days	66	929
Above 91 days	1.905	1.660
	<u>125.629</u>	<u>131.172</u>

b. Changes in the impairment losses of customers are shown below:

	2019	2018
Opening balance	(2.722)	(2.587)
Additions	(134)	(1.073)
Reversals	2.471	937
Closing Balance	<u>(385)</u>	<u>(2.722)</u>

7 Inventories

	2019	2018
Finished good for resale	77.329	59.664
Provision for losses due to expiration	(13.540)	(22.406)
Provision for losses due to slow moving	(5.956)	(755)
	<u>57.833</u>	<u>36.502</u>

Management expects stocks to be sold within a 12-month period.

The changes in the allowance for losses on the realization of inventories are as follows:

	2019	2018
Opening balance	(23.161)	(23.892)
Additions	(22.174)	(8.215)
Reversals	25.839	8.946
Closing Balance	<u>(19.496)</u>	<u>(23.161)</u>

8 Taxes recoverable

	2019	2018
Income tax	3.119	375
Social security contribution (INSS)	136	-
VAT tax (ICMS)	201	280
	<u>3.456</u>	<u>655</u>

The recoverable ICMS balance consists of credits on the acquisition of fixed assets.

9 Current and deferred income tax and social contribution

Below is a reconciliation of the tax effect on income before income tax and social contribution, applying the rates of 25% and 9%, respectively.

Details of deferred tax assets and additions over the year are shown below:

	2019	2018
Income before income tax and social contribution	-4.906	44.284
Combined tax rate	<u>34%</u>	<u>34%</u>
Taxes calculated at rates	1.627	(15.056)
Transfer price adjustments	(357)	(175)
Other permanent differences	<u>(1.230)</u>	<u>(2.074)</u>
Income tax and social contribution	(40)	(17.305)
Composed of:		
Current	(4.886)	(13.332)
Deferred	<u>4.846</u>	<u>(3.973)</u>
Total	<u>(40)</u>	<u>(17.305)</u>
Effective tax rate	-0,9%	39,1%

Deferred tax credits arising from temporary differences and tax losses were recorded. These tax credits were recorded in accordance with the expected realization, based on projections of future taxable income and limited use to 30% of annual taxable income, pursuant to current legislation.

Deferred income tax and social contribution assets are reviewed at each reporting date and reduced to the extent that their realization is no longer probable. The Company's management uses projections of gains and losses and frequently reviews the effective use of these credits, based on estimates of future income subject to taxation.

Based on the projection of future taxable income, the Company expects to realize deferred income tax and social contribution assets in the next five years.

The breakdown of deferred charges for temporary differences and tax losses is presented below:

	2019	2018
Sample stock and promotional materials	1.620	(102)
Deferred revenue adjustment	2.201	3.525
Loss through impairment of customers	7	63
Provision for variable salary	1.838	1.269
Allowance for inventory losses	6.629	7.875
Provision for labor, tax and civil risks	9.752	5.886
Losses on transactions with derivative instruments	86	815
Exchange variation gain	-	(2.993)
Provision for returns and discounts	4.643	4.356
Other provisions	2.882	2.023
Tax loss and negative basis	4.546	6.644

Total Deferred income tax and social contribution

34.204 **29.359**

10 Fixed assets

	2019			2018	
	Useful life	Cost of acquisition	Accumulated Depreciation / Write-offs	Balance as of 31st March	Balance as of 31st March
Computers and accessories	5	1.831	(1.269)	562	797
Installation	10	5.960	(2.283)	3.677	4.146
Machinery and Equipment	10	7.063	(3.290)	3.773	4.357
Furniture	10	1.447	(760)	687	753
Vehicles	5	155	(106)	49	80
Under construction	-	434	-	434	227
		<u>16.890</u>	<u>(7.708)</u>	<u>9.183</u>	<u>10.360</u>

The changes in property, plant and equipment in the years ended March 31, 2019 and 2018, are as follows:

	2019	2018
Opening balance	10.360	11.353
Gross amount of additions		
Computers and accessories	16	256
Installation	100	105
Machinery and Equipment	55	316
Furniture	44	10
Under construction	222	1
Total additions	<u>437</u>	<u>688</u>
Depreciation		
Computers and accessories	(261)	(256)
Installation	(569)	(559)
Machinery and Equipment	(633)	(616)
Furniture	(109)	(110)
Vehicles	(31)	(65)
Total depreciation	<u>(1.603)</u>	<u>(1.606)</u>
Residual value write-off	<u>(10)</u>	<u>(76)</u>
Closing balance as of 31st March	<u><u>9.183</u></u>	<u><u>10.360</u></u>

11 Intangible

	2019			2018	
	Useful life	Cost of acquisition	Accumulated Depreciation / Write-offs	Balance as of 31st March	Balance as of 31st March
Software	5	1.417	(1.182)	235	385
		<u>1.417</u>	<u>(1.182)</u>	<u>235</u>	<u>385</u>

The changes in intangible assets in the years ended March 31, 2019 and 2018 are as follows:

	2019	2018
Starting balance	385	534
Software acquisition	9	46
Total of acquisition	<u>9</u>	<u>46</u>
Software depreciation	(159)	(195)
Total of depreciation	<u>(159)</u>	<u>(195)</u>
Residual value write-off	-	-
Closing balance as of 31st March	<u>235</u>	<u>385</u>

12 Related parties

	2019	2018
Purchases:		
Accounts payables on importation of goods (a)	129.201	72.069
Accounts payables on services	-	687
Foreign exchange variance	2.167	2.041
Intercompany payables on supplies	<u>131.368</u>	<u>74.797</u>
Intercompany loans:		
Intercompany loans (b)	-	54.952
Foreign exchange variance	-	3.901
Intercompany loans	<u>-</u>	<u>58.853</u>

Intercompany transactions during the period from Apr18 to Mar19

Importation of goods (a)	185.279	115.740
Services	-	687
Price adjustments (c)	(6.225)	(5.521)
Interest Expenses on loan	(3.592)	(5.517)

Transaction relate to the importation of products from Torrent Pharmaceuticals Ltd. For resale in local market. Price and purchase condition are formally agreed between the parties.

The Company obtained an intercompany loan with Torrent Pharmaceutical Ltd. in June.2015 in the amount of US\$ 30.000.000 at a fixed interest rate of 8% p.a. The principal amount is payable on a quarterly basis starting on March 2016 and ending on March 2019. In March 2019, the last instalments was paid.

Related to price adjustment in connection to products imported from Torrent Pharmaceuticals Ltd that were sold in local market during the current year. This expense has been recognized as part of Cost of Goods Sold in the Income Statement.

13 Tax liabilities

	2019	2018
VAT tax (ICMS)	5.227	5.465
Income tax (IRPJ/CSLL)	17.371	16.882
Excise tax (PIS/COFINS)	584	760
Others	553	552
	23.735	23.659
	23.735	23.659

14 Labor liabilities

	2019	2018
Current		
Payroll	3.058	2.165
Contribution payable	1.659	1.363
Vacation, bonuses and contribution	7.986	7.034
	12.703	10.561
Non-current		
Contribution payable	1.968	-
	1.968	-
	14.671	10.561

15 Provision for contingencies

As of March 31, 2019, the Company was a party of judicial and administrative law suits. Supported by external lawyer's opinion, management understands that the provision recorded for tax, civil and tax contingencies are sufficient to cover the losses.

Those provisions are demonstrated below:

	2019	2018
Labor lawsuits	8.889	10.397
Tax and patent lawsuits	19.793	6.914
	28.682	17.311
	28.682	17.311

As of March 31, 2019, management revised the provision for labor contingencies based on external lawyer's opinions and understand that those provisions are correctly stated in the financial statements.

As of March 31, 2019, the Company is also a party to judicial and administrative law suits, which were classified as possible losses by its legal advisors involving tax, labor, civil and administrative matters in the amount of R\$ 10,436.

The changes in provisions for contingencies in the years ended March 31, 2019 and 2018 are as follows:

	2019	2018
Opening balance	17.311	19.231
Reductions	(3.752)	(3.508)
Additions	<u>15.123</u>	<u>1.588</u>
Closing balance	<u>28.682</u>	<u>17.311</u>

16 Share Capital

As of March 31, 2019 and 2018, the value of shareholders' equity was R\$ 25.000.000,00, represented by 25.000.000 shares of R\$ 1,00 each, distributed as such:

	Quantity	%
Torrent Pharmaceuticals Ltd	24.999.999	99,99
Torrent Private Limited	1	0,01

As of March 31, 2019 and 2018, the amount paid-in capital was R\$ 19,144 and US\$ 6,568,097.00 was registered with the Central Bank of Brazil (BACEN) as foreign capital held by Torrent Pharmaceuticals Ltd.

Dividends and capital repayments to non-resident is subjected BACEN regulation, and requires their formal registration (foreign investments or reinvestments).

17 Revenue

	2019	2018
Gross revenues	447.518	433.818
Other revenues	217	248
Discounts and returns	(43.166)	(47.482)
Sales taxes	<u>(38.730)</u>	<u>(38.159)</u>
	<u>365.839</u>	<u>348.425</u>

18 Cost of sales

	2019	2018
Cost of goods sold	(158.969)	(125.195)
Quality control cost	(2.017)	(3.874)
Impairment of goods	<u>(22.639)</u>	<u>(8.590)</u>
	<u>(183.625)</u>	<u>(137.659)</u>

19 Sales and administrative expenses

	<u>2019</u>		<u>2018</u>	
	Administrative	Selling	Administrative	Selling
Promotional events	-	18.293	-	21.996
Freight	-	5.612	-	6.338

Promotional material	-	4.850	-	3.809
Training	92	1.853	-	2.616
Other selling expenses	-	3	-	1.665
Promotional expenses	-	3.487	-	4.730
Loss through impairment of customers	-	(251)	-	135
Market research	-	2.263	-	2.214
Travels, transportation and vehicle expenses	861	13.921	350	7.851
Warehousing and distribution	1.022	1.323	385	5
Communication	10	22	228	147
Consulting	3.730	4.858	3.333	1.523
Bank fees	-	-	175	-
Translation	68	1	54	-
Contingencies	-	14.244	-	-
General expenses	1.141	1.811	505	376
Duties and levies	485	6.117	2.427	10
Maintenance	241	544	373	-
Other financial expenses	-	359	276	110
Rental	4.529	-	4.309	-
Product registration	777	-	936	-
Insurance	146	183	114	-
Audit fees	126	-	130	-
Depreciation and amortization	1.662	100	1.801	-
Salary and bonuses	8.315	36.945	11.957	50.219
Social security and contribution	6.453	22.171	3.432	14.414
Employee benefits	2.249	8.695	845	3.549
	31.908	147.404	31.630	121.709

20 Net financial result

	2019	2018
Revenue from financial investments	1.648	1.363
Other financial income	<u>10</u>	<u>11</u>
Total financial revenues	<u>1.658</u>	<u>1.374</u>

	2019	2018
Interest expenditure (*)	(3.592)	(5.517)
Exchange variation	(27.233)	(6.645)
Other financial expenses	(113)	-
Financial fines	(936)	-
Gain (loss) on realized hedge	21.649	(22.753)
)Hedge gain (loss) - fair value	<u>759</u>	<u>20.398</u>
Total financial expenses	<u>(9.466)</u>	<u>(14.517)</u>
Net total	<u>(7.808)</u>	<u>(13.143)</u>

(*) Interest expense refers to the intercompany loan, detailed in Note 15.

21 Financial instruments

The estimated realizable value of the Company's financial instruments was determined based on available market information and appropriate valuation methods. However, a considerable level of judgment is required to interpret market data in order to estimate the most appropriate realizable value. As a result, the estimates represented below are not necessarily indicative of the amounts that could be realized in the market. The use of different valuation methodologies may have a material impact on the estimate of fair value.

These instruments are managed taking into account operational strategies, aimed at liquidity, profitability and protection. The control methodology basically consists of constantly comparing the contracted rates with the market rates. The Company does not maintain derivative instruments or any other risk assets for speculative purposes.

The main risk factors inherent to the Company's operation are detailed below:

a. Foreign exchange risk

The Company's operation generates impacts that involve foreign exchange risks due to the fact that a considerable portion of its financial commitments is denominated in foreign currency (US dollar - US\$). These risks are constantly evaluated and the cash flow, as well as the Company's operation are monitored periodically.

The Company has derivative contracts (hedging contracts) with banks to hedge future payments in foreign currency. The Company's policy determines the exchange protection of 100% of its liabilities recorded in foreign currency, with its intercompany suppliers, as well as the protection of imports in transit and loans.

Gains or losses arising from these derivative contracts are recognized when the contract expires. At the balance sheet dates, outstanding contracts are measured at fair value (marked to market at the balance sheet dates) and the resulting gain or loss is recognized in the statements of income under "Unrealized gain (loss) on derivative".

The amount recorded in liabilities, referring to derivative instruments contracted for the purpose of hedging the exchange risk of future acquisitions of inventory, as of March 31, was as follows:

Amounts in thousands of dollars (USD)	2019	2018
Open derivative contracts to hedge liabilities denominated in - US\$ - notional amount	35.760	45.600
Amounts in thousands of reais (BRL)	2019	2018
Open derivative contracts to hedge liabilities denominated in - US\$ - notional amount	141.616	151.565

Next, the value of the Company's foreign exchange exposure on March 31, 2019 and 2018:

Amounts in thousands of dollars (USD)	2019	2018
Suppliers - Related Parties - import of products - US\$	33.713	22.503
Loans with Related Parties - US\$	-	17.707
	<u>33.713</u>	<u>40.210</u>
Amounts in thousands of reais (BRL)	2019	2018
Suppliers - Related Parties - import of products - US\$	131.368	74.797
Loans with Related Parties - US\$	-	58.853
	<u>131.368</u>	<u>133.650</u>

The fair values of derivative financial instruments outstanding at March 31, 2019 and 2018 and presented in the balance sheet are as follows:

	2019	2018
Unrealised losses on derivatives	(254)	(1.013)

Derivative instruments are represented by Non-Deliverable Forward (NDF) contracts maturing in the next 12 months.

The impact of the derivative contracts settled in the period of March 31, 2019 and 2018 is shown below:

	2019	2018
Gains / (Losses) on derivatives	21.649	(22.753)

Sensitivity Analysis

A reasonably possible variation of the Brazilian real against the U.S. dollar on March 31, 2019 and 2018 would have affected the measurement of financial instruments denominated in foreign currency and would have affected shareholders' equity and income at the amounts shown below. The analysis considers that all other variables, especially interest rates, remain constant and ignore any impact of the sales and purchase forecast.

	Profit and Loss		Shareholders' Equity (without taxes)	
	Valuation	Devaluation	Valuation	Devaluation
Effect in reais (BRL)				
31 st March 2019 Real (variation of 10%)	(13.137)	13.137	(8.670)	8.670
31 st March 2018 Real (variation of 10%)	(1.791)	1.791	(1.182)	1.182

b. Credit risk

Credit risk refers to the risk that a counterparty (customers or depositories of financial investment funds) does not comply with its contractual obligations, leading the Company to incur financial losses. To mitigate these risks, the Company constantly monitors the flow of receivables and monitors the open position. As of March 31, 2019, the five largest customers represented 79% (80% in 2018) of the balance of Accounts Receivable and 59% (74% in 2018) of Gross Profit.

c. Categories of financial instruments

The table below shows the position of financial assets and liabilities as of March 31, 2018:

	2018
Fair value in profit or loss - Gain / (loss) not realized on derivatives	(1.013)
Loans and receivables:	
Trade accounts receivable	115.637
Suppliers	11.533
Suppliers - Related parties	74.797
Loans with related parties	58.853

The table below shows the position of financial assets and liabilities as of March 31, 2019:

	2019
Fair value in profit or loss - Gain / (loss) not realized on derivatives	(254)
Amortized cost:	
Trade accounts receivable	108.329
Suppliers	9.560
Suppliers - Related parties	131.368
Loans with related parties	-

d. Fair value

As of March 31, 2019, the Company had financial instruments represented mainly by short-term investments, trade accounts receivable and accounts payable to suppliers and related parties. The fair value of these instruments, recorded in the balance sheet on March 31, 2019, was obtained by comparing the interest rates contracted with the interest rates in force in the market, in transactions of a similar nature on the balance sheet date.

The Company uses hierarchy level rules to measure the fair value of its financial instruments shown in the balance sheet, based on the following hierarchy levels, as described in Note 4.

As of March 31, 2019, the Company had financial instruments valued at fair value and contracted to protect the Company from certain fluctuations in the U.S. dollar (US\$), as previously described. These transactions, classified as level 2, are measured at fair value at the balance sheet dates and recorded under "Unrealized gains (losses) on derivatives".

* * *

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