

EMS S.A.

**Financial statements as of  
December 31, 2019 and 2018**

*(A free translation of the original report in  
Portuguese as published in Brazil)*

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# Independent auditors' report on individual and consolidated financial statements

To the Directors and Shareholders of  
EMS S.A.

Hortolândia - State of São Paulo

## Opinion

We have audited the individual and consolidated financial statements of EMS S.A. ("Company"), identified as parent and consolidated, respectively, which comprise the statement of financial position as of December 31, 2019, and the respective statements of profit or loss, of comprehensive income, of changes in equity and of cash flows for the fiscal year then ended, as well as the corresponding notes, with the relevant accounting policies and other information.

In our opinion, the individual and consolidated financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of EMS S.A. as of December 31, 2019, the individual and consolidated performance of its operations and its individual and consolidated cash flows for the year then ended, pursuant to accounting policies adopted in Brazil.

## Basis for opinion

Our audit was conducted in accordance with Brazilian and international auditing standards. Our responsibilities under those standards, are further described in the "Auditors' responsibilities for the audit of the individual and consolidated financial statements" section of our report. We are independent in relation to the Company and its subsidiaries, pursuant to the relevant ethical principles provided for in the Accountant Professional Code of Ethics and in professional standards issued by the Federal Accounting Council, and we comply with the other ethical responsibilities in accordance with such standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Emphasis - Transactions with related parties

We emphasize the fact that a substantial part of the Company's operations is made with related parties, in accordance with Note 31 to the individual and consolidated financial statements. Thus, the abovementioned financial statements should be read in this context. Our opinion does not contain any modification with respect to this issue.

## Management's responsibility for the individual and consolidated financial statements

Management is responsible for the preparation and proper presentation of the individual and consolidated financial statements according to accounting policies adopted in Brazil and for the internal controls it has determined as necessary to enable preparation of such financial statements free of any material misstatement, irrespective of whether caused by fraud or by error.

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

## Auditors' responsibilities for the audit of the individual and consolidated financial statements

Our objectives are to obtain reasonable assurance that the individual and consolidated financial statements, taken as a whole, are free of any material misstatement, irrespective of whether caused by fraud or error, and to issue an audit report containing our opinion. Reasonable assurance is a high level of assurance, but not an assurance that the audit work performed according to Brazilian and international audit standards will always detect occasional material misstatements. Misstatements may occur due to fraud or error and are considered material when they can influence, individually or jointly, the economic decisions of stakeholders, taken based on such financial statements, within a reasonable perspective.

As part of the audit work performed according to national and international audit standards, we have applied our professional judgment and maintained a skeptical approach during the audit work. In addition:

- We have identified and evaluated the risks of material misstatement in the individual and consolidated financial statements, irrespective of whether caused by fraud or error, planned and executed audit procedures in response to such risks, as well as obtained appropriate and sufficient audit evidence to base our opinion. The risk of non-detection of material misstatement resulting from fraud is greater than that of error, since fraud may include the action of deceiving internal controls, collusion, forgery, omission, or willful misrepresentations.
- We have been provided with an understanding of internal controls relevant for the audit in order to plan audit procedures appropriate to the circumstances, but not with the objective of expressing an opinion on the efficacy of internal controls of the Company and its subsidiaries.
- We have evaluated the accounting policies used and the reasonability of accounting estimates and respective information disclosed by management.
- We made conclusions on adequacy of use, by management, of going concern accounting basis and, based on the audit evidence obtained, if there is relevant uncertainty about the events or conditions that may give rise to a significant doubt as to the Company's going concern and that of its subsidiaries. If we conclude that there is relevant uncertainty, we must draw attention in our audit report to the respective disclosures in individual and consolidated financial statements or include a modification in our opinion if the disclosures are inadequate. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.
- We have evaluated the general presentation, the structure and content of the financial statements, including disclosures, and whether the individual and consolidated financial statements represent the corresponding transactions and the events in a way compatible with the objective of appropriate presentation.

- We have obtained appropriate and sufficient audit evidence related to the entities' financial information or the group's business activities in order to ground our opinion on the individual and consolidated financial statements. We are responsible for the coordination, supervision and performance of the group's auditing and, consequently, for the auditors' opinion.

We communicated to the management, among other issues, the intended scope of the audit work, the time of audit and the significant conclusions, including any significant deficiencies in internal controls that we identified during our work.

Campinas, May 29, 2020

KPMG Auditores Independentes  
CRC 2SP-027612/F  
*Original report in Portuguese signed by*  
Carlos Humberto Rodrigues da Silva  
Accountant CRC 1SP217733/O-4

**EMS S.A.**

**Statement of financial position as of December 31, 2019 and 2018**

*(In thousands of Reais, except when otherwise indicated)*

Assets	Note	Parent Company		Consolidated		Liabilities	Note	Parent Company		Consolidated	
		2019	2018	2019	2018			2019	2018	2019	2018
<b>Current</b>						<b>Current</b>					
Cash and cash equivalents	11	71,529	128,685	149,240	252,346	Suppliers	19	172,317	238,470	180,857	248,951
Trade receivables	13	575,785	382,804	749,005	519,863	Trade payables – related parties	31.e	1,136,468	901,370	1,142,291	902,738
Trade receivables from related parties	31.e	268,570	118,528	232,323	150,511	Loans and borrowings	20	84,712	53,123	88,189	53,123
Inventories	14	591,547	337,832	652,998	386,934	Salaries and wages payable		86,913	92,461	93,452	99,250
Recoverable taxes	15	170,996	135,940	321,258	216,672	Taxes payable		19,964	29,917	24,394	29,840
Dividends receivable	31.f	119,770	239,770	-	-	Income tax and social security contribution payable	22.c	-	-	33,141	18,553
Other receivables	16	53,852	281,072	63,466	261,287	Taxes in installments	23	15,775	8,044	15,958	8,221
<b>Total current assets</b>		<b>1,852,049</b>	<b>1,624,631</b>	<b>2,168,290</b>	<b>1,787,613</b>	Dividends payable	25.d	117,160	90,170	122,289	95,299
						Other trade payables	24	117,126	130,119	131,389	141,867
<b>Non-current</b>						<b>Total current liabilities</b>		<b>1,750,435</b>	<b>1,543,674</b>	<b>1,831,960</b>	<b>1,597,842</b>
Legal deposits	21.a	34,798	33,258	37,801	35,894	<b>Non-current</b>					
Recoverable taxes	15	6,703	6,703	6,703	6,703	Loans and borrowings	20	285,311	264,499	290,354	264,606
Other receivables	16	4,996	4,996	5,870	4,996	Taxes in installments	23	37,989	18,373	38,692	19,232
Financial investment related to loan	12	4,124	3,635	4,124	3,635	Provision for losses in legal proceedings	21.a	93,839	125,734	113,490	144,490
Loans receivable from related parties	31.g	316,093	227,961	316,093	227,961	Deferred income - government subsidy		19,032	19,032	19,032	19,032
Deferred income tax and social security contribution	22.a	49,780	104,376	59,682	129,172	Other trade payables	24	5,334	6,933	5,334	6,933
Investments in subsidiaries	17	297,707	173,010	-	-	<b>Total non-current liabilities</b>		<b>441,505</b>	<b>434,571</b>	<b>466,902</b>	<b>454,293</b>
Other investments		5,182	4,757	71,870	57,967	<b>Total liabilities</b>		<b>2,191,940</b>	<b>1,978,246</b>	<b>2,298,862</b>	<b>2,052,135</b>
Fixed assets	18	761,407	635,907	771,334	638,397	<b>Equity</b>	25				
Intangible assets		16,207	11,762	16,262	11,871	Share capital		221,708	221,708	221,708	221,708
<b>Total non-current assets</b>		<b>1,496,997</b>	<b>1,206,365</b>	<b>1,289,739</b>	<b>1,116,596</b>	Capital reserves		164,019	164,019	164,019	164,019
						Tax incentive reserve		159,420	125,206	159,420	125,206
						Legal reserve		44,342	44,342	44,342	44,342
						Earnings reserve		560,594	295,433	560,594	295,433
						Equity valuation adjustment		7,023	2,043	7,023	2,043
						<b>Equity attributable to ordinary shareholders</b>		<b>1,157,106</b>	<b>852,751</b>	<b>1,157,106</b>	<b>852,751</b>
						<b>Non-controlling interests</b>		-	-	2,061	(677)
						<b>Total equity</b>		<b>1,157,106</b>	<b>852,751</b>	<b>1,159,167</b>	<b>852,074</b>
<b>Total assets</b>		<b>3,349,046</b>	<b>2,830,996</b>	<b>3,458,029</b>	<b>2,904,209</b>	<b>Total liabilities and equity</b>		<b>3,349,046</b>	<b>2,830,996</b>	<b>3,458,029</b>	<b>2,904,209</b>

The Management notes are an integral part of the financial statements.

## EMS S.A.

### Statement of profit or loss

Fiscal years ended December 31, 2019 and 2018

(In thousands of Reais, except when otherwise indicated)

		Parent Company		Consolidated	
		2019	2018	2019	2018
Sales revenue	26	3,530,925	3,341,307	3,917,157	3,625,166
Cost of products sold	27	(2,018,640)	(1,955,218)	(2,126,729)	(2,005,697)
<b>Gross profit</b>		<u>1,512,285</u>	<u>1,386,089</u>	<u>1,790,428</u>	<u>1,619,469</u>
Selling expenses	27	(331,750)	(238,177)	(380,281)	(273,618)
Administrative expenses	27	(879,678)	(817,467)	(973,910)	(916,054)
Impairment loss on trade receivables	27	802	19,298	6,019	145
Other operating expenses (revenues), net	28	126,945	(102,882)	88,228	(109,302)
Equity accounting income	17	63,988	64,068	-	-
Equity accounting result - other investments		(2,253)	1,964	32,179	23,388
<b>Income before net financial revenues (expenses) and taxes</b>		<u>490,339</u>	<u>312,893</u>	<u>562,663</u>	<u>344,027</u>
Financial revenues	29	133,309	58,409	141,573	63,929
Financial expenses	29	(65,670)	(92,598)	(70,040)	(96,127)
<b>Net financial income</b>		<u>67,639</u>	<u>(34,189)</u>	<u>71,533</u>	<u>(32,198)</u>
<b>Income before income tax and social security contribution</b>		<u>557,978</u>	<u>278,704</u>	<u>634,196</u>	<u>311,829</u>
Income tax and social security contribution	22.b	(140,862)	9,284	(216,058)	(23,632)
<b>Net income for the fiscal year</b>		<u>417,116</u>	<u>287,988</u>	<u>418,138</u>	<u>288,197</u>
<b>Income attributable to controlling shareholders</b>		<u>-</u>	<u>-</u>	<u>417,116</u>	<u>287,988</u>
<b>Income attributable to non-controlling interests</b>		<u>-</u>	<u>-</u>	<u>1,022</u>	<u>209</u>
<b>Net income for the fiscal year</b>		<u>-</u>	<u>-</u>	<u>418,138</u>	<u>288,197</u>
Net income per share attributable to Company's shareholders during the fiscal year (expressed in R\$ per share)	30	<u>20.38</u>	<u>14.40</u>	<u>-</u>	<u>-</u>

The Management notes are an integral part of the financial statements.

**EMS S.A.****Statements of comprehensive income****Fiscal years ended December 31, 2019 and 2018***(In thousands of Reais, except when otherwise indicated)*

	<u>Parent Company</u>		<u>Consolidated</u>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Net income for the fiscal year	417,116	287,988	418,138	288,197
Other comprehensive income				
Foreign operations and foreign currency translation differences	<u>4,980</u>	<u>3,806</u>	<u>4,980</u>	<u>3,806</u>
<b>Total comprehensive income</b>	<u><u>422,096</u></u>	<u><u>291,794</u></u>	<u><u>423,118</u></u>	<u><u>292,004</u></u>
<b>Comprehensive income attributable to:</b>				
Controlling shareholders			422,096	291,794
Non-controlling interests			<u>1,022</u>	<u>210</u>
<b>Total comprehensive income</b>			<u><u>423,118</u></u>	<u><u>292,004</u></u>

The notes are an integral part of the financial statements.



**EMS S.A.**

**Statement of changes in equity**

Fiscal years ended December 31, 2019 and 2018

(In thousands of Reais, except when otherwise indicated)

	Share capital	Capital reserve	Equity valuation adjustment	Earnings reserve			Retained earnings	Total equity	Non-controlling interests	Total equity
				Tax incentive reserve	Legal reserve	Earnings reserve to be distributed				
<b>As of December 31, 2017</b>	221,708	164,019	(1,763)	125,206	44,342	306,637	-	860,148	2,863	863,011
Net income for the fiscal year	-	-	-	-	-	-	287,988	287,988	210	288,198
Accumulated adjustment of conversion	17	-	3,806	-	-	-	-	3,806	-	3,806
Allocation of net income for the fiscal year										
Supplementary dividends from previous period, approved in general meeting	25.d	-	-	-	-	(227,195)	-	(227,195)	-	(227,195)
Proposed dividends	25.d	-	-	-	-	-	(71,997)	(71,997)	-	(71,997)
Other transactions of non-controlling interests	-	-	-	-	-	-	-	-	(3,749)	(3,749)
Constitution of earnings reserve	-	-	-	-	-	215,991	(215,991)	-	-	-
<b>As of December 31, 2018</b>	221,708	164,019	2,043	125,206	44,342	295,432	-	852,749	(676)	852,074
Net income for the fiscal year	-	-	-	-	-	-	417,116	417,116	1,022	418,138
Accumulated adjustment of conversion	17	-	4,980	-	-	-	-	4,980	-	4,980
Allocation of net income for the fiscal year										
Transfer in reserve	25.d	-	-	34,214	-	-	(34,214)	-	-	-
Supplementary dividends from previous period, approved in general meeting	25.d	-	-	-	-	(22,014)	-	(22,014)	-	(22,014)
Proposed dividends	25.d	-	-	-	-	-	(95,726)	(95,726)	-	(95,726)
Other transactions of non-controlling interests	-	-	-	-	-	-	-	-	1,715	1,715
Constitution of earnings reserve	-	-	-	-	-	287,176	(287,176)	-	-	-
<b>As of December 31, 2019</b>	221,708	164,019	7,023	159,420	44,342	560,594	-	1,157,106	2,061	1,159,167

The notes are an integral part of the financial statements.

## EMS S.A.

### Statement of cash flows

Fiscal years ended December 31, 2019 and 2018

(In thousands of Reais, except when otherwise indicated)

	Note	Parent Company		Consolidated	
		2019	2018	2019	2018
<b>Cash flows from operating activities</b>					
<b>Income before income tax and social security contribution</b>		557,978	278,704	634,196	311,830
Adjustments for					
Depreciation	18	44,289	49,209	48,758	51,978
Amortization		1,042	2,020	2,032	2,440
Loss on disposal of intangible and fixed assets	18	11,195	27,517	10,889	26,687
(Reversal) provision for impairment loss on trade receivables	13	2,960	19,298	(851)	19,640
(Reversal) provision for obsolescence in inventories	14	14,188	(11,859)	15,013	(12,041)
Provision for losses in legal proceedings and legal deposits	21	(5,049)	(703)	(3,262)	8,087
Provision for interest		29,037	10,626	28,662	13,231
Provision of interest on loans	31g	(94,528)	-	(94,528)	-
Income from subsidiaries recognized by equity accounting	17	(63,988)	(64,068)	-	-
Income from non-controlled subsidiaries recognized by equity accounting		2,253	(1,964)	(32,179)	(23,388)
Impairment		-	-	-	874
Unrealized exchange (gains) losses from financial activities		10,930	24,136	11,413	23,792
Claim write-off - fire	28	(48,438)	290,754	(48,438)	290,754
Claim reimbursement right - fire	28	(86,853)	(199,640)	(86,853)	(199,640)
<b>Variation in assets and liabilities</b>		-	-	-	-
Trade receivables		(195,850)	53,845	(228,268)	85,661
Trade receivables from related parties		(150,042)	(15,748)	(81,812)	(29,463)
Inventories		(219,565)	(234,940)	(232,769)	(223,849)
Recoverable taxes		(102,012)	(52,571)	(174,216)	(68,578)
Other trade receivables		198,156	(12,423)	196,947	(15,463)
Provision for losses in legal proceedings and legal deposits		(33,592)	4,151	(35,339)	4,775
Suppliers and other payables		1,514	167,508	22,330	170,392
Taxes payable		(5,558)	-	(1,050)	-
Trade payables – related parties		235,098	24,948	239,553	26,284
Taxes in installments		27,347	153,306	27,196	166,058
<b>Cash from operations</b>		130,512	509,489	217,424	627,314
Interest paid	20	(8,085)	(22,626)	(8,085)	(22,627)
Income tax and social security contribution paid	22c	(19,310)	(34,195)	(62,349)	(66,816)
<b>Net cash from operating activities</b>		103,117	452,668	146,990	537,871
<b>Cash flows from investment activities</b>					
Acquisition of fixed assets	18	(71,675)	(297,730)	(72,554)	(300,561)
Increase of interest in subsidiary	17	(44,512)	(12,224)	-	-
Reduction of interest in non-subsidiary		-	1,964	-	-
Acquisition of intangible assets		(1,482)	(385)	(320)	(826)
Loan with related parties	31g	2,000	44,605	2,000	42,000
Dividends received from subsidiaries	31f	137,343	56,508	-	-
Other investments		-	(1,961)	6,752	3,172
<b>Net cash (used in) from investment activities</b>		21,674	(209,223)	(64,122)	(256,215)
<b>Cash flows from financing activities</b>					
Financial investment (redemption) related to loan		(489)	(263)	(489)	(263)
Funding of loans	20	-	230,477	-	230,477
Financial Lease	20	(36,240)	-	(40,217)	-
Payment of principal amount of loans	20	(54,468)	(62,297)	(54,518)	(62,327)
Dividends paid to Company's shareholders	20	(90,750)	(300,745)	(90,750)	(300,745)
<b>Net cash (used in) financing activities</b>		(181,947)	(132,828)	(185,974)	(132,858)
<b>(Decrease) increase in cash and cash equivalents, net</b>		(57,156)	110,617	(103,106)	148,798
<b>Cash and cash equivalents at the beginning of fiscal year</b>		128,685	18,068	252,346	103,548
<b>Cash and cash equivalents at the end of fiscal year</b>		71,529	128,685	149,240	252,346

Management notes are an integral part of the individual and consolidated financial statements.

## Management notes to the financial statements

*(In thousands of Reais, except when otherwise indicated)*

### 1 Operating context

EMS S.A. ("Company" or "Parent") is a privately held company incorporated in 1964, and jointly with its subsidiaries ("Consolidated"), has as corporate purpose the manufacturing, commercialization, import and export of products, of its own or of third parties, pharmaceuticals, allopathy, dietary foods, pharmaceutical inputs and drugs.

The Company's headquarters are located in the city of Hortolândia, State of São Paulo.

The individual and consolidated financial statements include the Company and its subsidiaries (jointly referred to as "Group" and individually as "Group entities"). The Group is primarily engaged in the manufacturing or pharmaceutical products.

The Company is part of NC Group ("Group"), using its administrative, operating, financial and technological resources. A relevant part of its operations is performed with related parties. These financial statements should be read in this context.

### 2 List of subsidiaries

The Company has direct equity interest in the following entities:

Subsidiary	Company Type	Country	Equity interest	
			2019	2018
CPM Concessionária Paulista de Medicamentos S/A	S.A.	Brazil	99.38%	99.38%
EMS Sigma Pharma Ltda.	Limited company	Brazil	99.00%	99.00%
Legrand Pharma Indústria Farmacêutica Ltda.	Limited company	Brazil	99.00%	99.00%
Luxbiotech Farmacêutica Ltda.	Limited company	Brazil	99.65%	99.31%
Monteresearch SRL	Limited company	Italy	100%	100%
Rio Bio Pharmaceuticals, LLC	Limited	United States	100%	100%

The Group's corporate structure is as follows:

- CPM Concessionária Paulista de Medicamentos S/A** - Located in Américo Brasiliense, State of São Paulo, it operates in the management and maintenance of the Pharmaceutical Industry of Américo Brasiliense (IFAB), owned by *Fundação para o "Remédio Popular"*, related to Secretary of State of São Paulo, by means of concession. The objective is to develop the Government's knowledge of technology and patents, as well as to act in the exclusive supply of generic medicines. The concession period is of 15 years and production began on August 1, 2015. This concession contract is currently partially suspended until July 1, 2020, limiting activities to the services relevant for the property and monitoring security, cleaning and maintenance.
- EMS Sigma Pharma Ltda.** - Located in Hortolândia, state of São Paulo, it operates in the manufacture and sale of similar medicines nationwide. Currently, it has only one production line, the other products sold are purchased from the parent company for resale. Since November 2018, EMS Sigma has been packaging the products manufactured by Novamed/AM according to the Special Regime of Industrialization by Order in the State of São Paulo and approved by the Government of Amazonas.

- **Legrand Pharma Indústria Farmacêutica Ltda.** - Located in Hortolândia, state of São Paulo, it operates in the manufacture and sale of generic medicines nationwide. Currently, it has only one production line, the other products sold are purchased from the parent company for resale.
- **Luxbiotech Farmacêutica Ltda.** - Located in Hortolândia, state of São Paulo, it operates in the manufacture and sale of cutting edge dermocosmetics nationwide.
- **Montereseach SRL** - Located in Milan, Italy, it is a pharmaceutical research laboratory specialized in development of drug delivery systems, technologies that allow the development of a new formulation for a drug to be liberated in the body faster or slower, according to physician and patient needs, and even at safer concentrations.
- **Rio Bio Pharmaceuticals, LLC** – Located in the United States, its corporate purpose is the development of pharmaceutical activities, which may include, among others, the manufacture, marketing, import and export of own and third-party pharmaceutical products and inputs; the provision of administrative services, technical and documentary advisory/consultancy, with or without technology transfer, and interest in joint ventures or other companies as quotaholder, shareholder or partner.

### **3 Basis for preparation and statement of compliance**

The individual and consolidated financial statements were prepared and are presented according to accounting policies adopted in Brazil (BR-GAAP), based on accounting pronouncements, guidelines and interpretations issued by Accounting Pronouncements Committee ("CPC").

The issuance of the financial statements was authorized by the Group's Executive Board as of May 29, 2020. After issuance, only shareholders have the power to amend the financial statements.

Details on the significant accounting policies of the Group are presented in Note 8.

This is the first set of annual financial statements of the Company in which CPC06 (R2) - Leases was applied. Changes described in significant accounting policies are shown in note 6.

All information relevant to the financial statements, and only such information, is evidenced herein and corresponds to the information used by Management in its activities.

### **4 Functional and presentation currency**

The Group's functional currency is the Real (R\$). These financial statements are presented in thousands of Reais. All balances have been rounded up to the nearest thousand, except when otherwise indicated.

### **5 Use of estimates and judgments**

The preparation of these financial statements required Group's Management to make judgments and estimates that affect the application of accounting policies and the reported amounts for assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

The estimates and assumptions are reviewed continuously. The estimates reviews are recognized in a prospective basis.

Information on judgments, assumptions and uncertainties of estimates as of December 31, 2019, that has significant risk to result in a substantial adjustment to the carrying amounts of assets and liabilities in the next fiscal years is included in the following notes:

- **Note 17(b)** - equity accounting in investees: determination whether the Group has significant influence over an investee;
- **Note 13** - measurement of expected credit loss on trade receivables from trade receivables: main assumptions on determination of loss weighted average rate;
- **Note 14** - recognition and measurement of provision for impairment loss on inventories: main assumptions in determining the loss of unused or past due inventories;
- **Note 21** - recognition and measurement of provisions and contingencies: main assumptions on probability and magnitude of outflows of funds; and
- **Note 22.a** - Deferred income tax and social security contribution availability of future taxable income against which deductible temporary differences may be used.
- **Note 15 and 23** - ICMS Tax Benefits: The Company has an ICMS (State Value-Added Tax on Goods and Services) tax incentive granted by the state government of Brasília. The Federal Supreme Court (STF) issued decisions in Direct Actions, declaring the unconstitutionality of several state laws that granted ICMS tax benefits without prior agreement between States.

Although it does not have ICMS tax incentives judged by the STF, the Company has been monitoring, with its legal advisors, the evolution of this issue in the courts to determine possible impacts in its operations and consequent impact on financial statements. At this moment, there is no expectation from Management that this matter may have a material effect on the Company's financial statements.

**(i) Measurement of fair value**

A number of the Group's accounting policies and disclosures require the measurement of fair value of financial and non-financial assets and liabilities.

The Group uses observable market data, as much as it is possible, to measure the fair value of an asset or a liability. Fair values are classified at different levels in a hierarchy based on inputs used in valuation techniques as follows.

- **Level 1:** quoted prices (not adjusted) in active markets for identical assets and liabilities.
- **Level 2:** inputs, other than the quoted prices included in Level 1, which are directly (by price) or indirectly (by price derivatives) observable for an asset or liability.
- **Level 3:** inputs for an asset or liability that are not based on observable market data (non-observable inputs).

The Group recognizes transfers between levels of the fair value hierarchy in the financial statements at the end of the period when the changes occurred.

## **6 Changes in accounting policies**

### **a. CPC06 (R2) - Financial Lease**

As of January 1, 2019, the Group applied CPC 06 (R2), which introduces a single lease model, replacing the concept of classification between operating and financial lease. The main objective is to define whether there is a lease in the contracts or whether the contract is a service provision. After such definition, if a contract contains a lease, it should be recorded in assets, to be depreciated and in liabilities with allocation of financial charges, using the cumulative effect method with the rule initial application in the initial date (i.e., January 1, 2019). Consequently, the Group did not apply the CPC 06 (R2) requirements to the comparative period presented.

#### ***Definition of lease***

Previously, the Group determined, at the beginning of the contract, whether it was or contained a lease in accordance with ICPC 03 - Supplementary Aspects of Lease Operations. The Group assesses whether a contract is or contains a lease based on the definition of lease, described in Note 8.

In the transition to CPC 06 (R2), the Group chose to apply the practical expedient regarding the definition of lease, which assesses which transactions are leases. The Group applied CPC 06 (R2) only to contracts previously identified as leases.

Contracts that were not identified as leases in accordance with CPC 06 (R1) and ICPC 03 have not been reassessed for the existence of a lease in accordance with CPC 06 (R2). Therefore, the definition of a lease in accordance with CPC 06 (R2) was applied only to contracts signed or amended on or after January 1, 2019.

#### **a. As lessee**

As a lessee, the Group leases several assets, including real estate, production equipment and IT equipment. The Group previously classified the leases as operating or financial, based on its assessment of whether the lease significantly transferred all the risks and benefits inherent to the ownership of the underlying asset to the Group. In accordance with CPC 06 (R2), the Group recognizes right-of-use assets and lease liabilities for most of these leases, that is, these leases are on statement of financial position.

At the beginning or in amendment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component based on stand-alone price.

However, for real estate leases, the Group chose not to separate the non-lease components and account for the lease and the associated non-lease components, as a single lease component.

#### **(i) Lease classified as operating lease in accordance with CPC 06(R1)**

Previously, the Group classified real estate leases as operating leases in accordance with CPC 06(R1). In the transition, for these leases, the lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental loan rate as of January 1, 2019. Right-of-use assets are measured:

- At their carrying amount as if CPC 06(R2) had been applied since the start date, discounted using the Group's incremental loan rate on the date of initial application: The Group applied such approach to its largest real estate lease; or

- For an amount equal to the lease liability, adjusted by the amount of any anticipated or accumulated lease receipts: the Group applied this approach to all other leases.

The Group tested its right-of-use assets for impairment loss on transition date and concluded that there is no indication that the right-of-use assets have impairment problems.

The Group used several practical expedients when applying CPC 06(R2) to leases previously classified as operating leases in accordance with CPC 06(R1). Specifically:

- did not recognize right-of-use assets and liabilities for leases which lease term ends within 12 months from the date of initial application;
  - did not recognize assets and liabilities for use rights for leasing low value assets (for example, IT equipment);
  - excluded the initial direct costs of measuring the right-of-use assets on the date of initial application; and
  - it retrospectively determined the lease term.
- (ii) **Lease classified as finance lease according to CPC 06 (R1)**  
As of December 31, 2018, the Company did not have any leases classified as financial leases in accordance with CPC 06 (R1).

**b. As lessor**

The Group leases its investment properties, including its own properties and right-of-use assets. The Group classified these leases as operating.

The group is not required to make adjustments in the transition to CPC 06 (R2) for leases in which it acts as lessor, except for a sublease.

The Group subleased some of its properties. According to CPC 06 (R1), the lease and sublease contracts were classified as operating leases. In the transition to CPC 06 (R2), the right-of-use assets recognized from the leases are presented in investment properties and measured at fair value on that date. The Group assessed the classification of sublease contracts with reference to the right-of-use assets, and not to the underlying asset, and concluded that they are operating leases in accordance with CPC 06 (R2).

The Group also entered into a sublease during 2019, which was classified as a financial lease.

The Group applied CPC 47 Revenue from contracts with customers to allocate the consideration in the contract to each component of lease and non-lease.

**c. Impact on financial statements**

The Group opted for the simplified and modified retrospective transition approach, without restating the comparative periods, adopting the following recognition criteria and initial measurement of assets and liabilities:

- Recognition of financial lease liabilities on the date of initial application for leases previously classified as operating leases. Financial lease liabilities were measured at present value of the remaining lease payments, discounted based on incremental loan interest rates, combined by nature of asset, region and contractual term; and

- Recognition of right-of-use assets on the date of initial application for leases previously classified as operating leases. Right-of-use assets were measured at an amount equivalent to the financial lease liability, adjusted by the amount of any anticipated or accumulated lease payments related to that lease that was recognized in statement of financial position immediately before the date of initial application.

The tables below show the impacts of the initial adoption of CPC 06 (R2) on the accounting data, as of January 1, 2019:

<i>In thousands of Reais</i>	<b>January 1, 2019 (Parent)</b>
Right-of-use assets - fixed assets	109,175
Subleased right-of-use assets (*)	1,065
Lease liabilities	(110,240)

<i>In thousands of Reais</i>	<b>January 1, 2019 (Consolidated)</b>
Right-of-use assets - fixed assets	117,476
Subleased right-of-use assets (*)	1,065
Lease liabilities	(118,541)

- (\*) The right-of-use assets are deducted from the subleased installments to group's companies. These amounts are reclassified as trade receivables with related parties.

<i>In thousands of Reais</i>	<b>December 31, 2019 (Parent)</b>
Right-of-use assets - fixed assets	84,115
Lease liabilities	(95,138)
Deferred tax	(1,338)

<i>In thousands of Reais</i>	<b>December 31, 2019 (Consolidated)</b>
Right-of-use assets - fixed assets	92,263
Lease liabilities	(103,605)
Deferred tax	(1,419)

When measuring lease liabilities for leases classified as operating, the Group discounted lease payments using its incremental borrowing rate on January 1, 2019. The weighted average rate applied is 9.98%.

**d. ICPC 22 - Uncertainties over income tax treatments**

This interpretation clarifies how to apply the requirements for recognition and measurement of CPC 32 Income Taxes when there is uncertainty over income tax treatments. In these circumstances, the entity must recognize and measure its current or deferred tax asset or liability, applying the requirements of ICPC 22 based on taxable income (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, determined based on this interpretation. The standard is effective as of January 1, 2019.

The Group did not identify significant impacts on its financial statements as a result of applying this interpretation.



## **7 Measurement basis**

The individual and consolidated financial statements have been prepared on historical cost basis, except as otherwise specified.

For more information on the measurement of these assets and liabilities, see Note 8 - significant accounting policies.

## **8 Significant accounting policies**

The Company and its subsidiaries have consistently applied the accounting policies described below to all fiscal years presented in the financial statements, unless otherwise stated and except for accounting policies related to CPC 06 which were not applied in 2018.

### **a. Individual financial statements**

In the individual financial statements, subsidiaries are accounted by the equity accounting method.

### **b. Consolidation basis**

The following are the accounting policies adopted in preparing the consolidated financial statements.

#### **(i) Subsidiaries**

The Group controls an entity when it is exposed to, or is entitled to, the variable returns arising from its involvement with the entity and has the ability to affect those returns by exercising its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which the Group obtained control until the date on which the control ceases to exist.

In parent's individual financial statements, the financial information on subsidiaries is recognized by the equity accounting method.

#### **(ii) Non-controlling interests**

The Group elected to measure initially any NCI by the proportional interest in acquiree's net assets identifiable upon acquisition date.

Changes in the Group's interest in a subsidiary that do not result in loss of control are accounted for as equity transactions.

#### **(iii) Loss of control**

When the entity loses control over a subsidiary, the Group derecognizes the assets and liabilities and any NCI and other components recorded in equity relating to that subsidiary. Any gain or loss arising from loss of control is recognized in the statement of profit or loss. If the Group retains any interest in the former subsidiary, such interest is measured at its fair value on the date of loss of control.

#### **(iv) Investments in entities recorded under the equity accounting method**

The Group's investments in entities recorded under the equity accounting method comprise its interests in associates and joint ventures.

- Associates are those entities in which the Group, directly or indirectly, has significant influence, but no control or joint control over the financial and operating policies.

Such investments are initially recognized at cost, which includes transaction costs. After initial recognition, the financial statements include the Group's interest in the net profit or loss for the fiscal year and other comprehensive income of the investee until the date when the significant influence or joint control ceases to exist. In the Parent's individual financial statements, investments in subsidiaries are also recorded using this method.

**(v) *Transactions eliminated in consolidation***

Balances, transactions and unrealized gains on transactions between Group's entities are eliminated. Unrealized losses are also eliminated, unless the operation provides evidence of loss of the asset transferred. The subsidiaries' accounting policies are changed as needed, to assure consistency with the policies adopted by the Group.

**c. *Foreign currency***

**(i) *Transactions and balances in foreign currency***

Transactions in foreign currency are converted to Reais at the exchange rates on the transactions dates. Monetary assets and liabilities denominated and assessed in foreign currencies on the date of the presentation are reconverted to the functional currency at the exchange rate assessed on such date. Exchange gain or loss in monetary items is the difference between the amortized cost of the functional currency at the beginning of the period, adjusted by interest and effective payments during the period, and the amortized cost in foreign currency at the exchange rate at the end of the presentation period.

Differences in foreign currencies resulting from conversion are generally recognized in the statement of profit or loss.

**(ii) *Operations abroad***

Assets and liabilities derived from foreign transactions, including goodwill and fair value adjustments from the acquisition, if applicable, are translated into Brazilian reais using the exchange rate on the date of presentation of the financial statements. The revenues and expenses of operations abroad are converted into Real at exchange rates calculated on transaction dates.

Exchange variations are recognized in other comprehensive income, and presented in the accumulated foreign currency exchange adjustments (exchange reserve) in equity. When a transaction abroad is disposed, and the control, the significant influence, or shared control no longer exists, the values accumulated in reserve exchange related to that foreign transaction are reclassified to the income for the fiscal year as part of the gain or loss on disposal. When the Group dispose only part of its interest in a subsidiary that includes a foreign transaction but maintains its control, the respective proportion of the accumulated value is reassigned to non-controlling interests. When the Group dispose only part of its investment in an associate or joint venture that includes a foreign transaction, while maintaining significant influence or shared control, the respective proportion of the accumulated value is reclassified to the income for the fiscal year.

**d. Revenue from contract with customers**

Revenue from contracts with customers is recognized when control of products and goods is transferred to the customer for an amount that reflects the consideration to which the Group expects to be entitled in exchange for these products and goods.

- Customers gain control of pharmaceutical products when they are delivered and accepted at the customer's premises. Commercial agreements signed with customers to boost their sales are applied directly to the sales invoice of the products and recognized as a deduction from sales.
- Invoices are issued at that time and must normally be paid within 90 days.
- Product returns are exchanged for new products or credits only, so there is no refund.
- Recognized revenue is net of taxes, effective returns and other allowances.

**(i) Variable consideration**

If the consideration in a contract includes a variable amount, the Group estimates the consideration amount to which it will be entitled in exchange for the transfer of goods to the customer. Some contracts for the sale of products and goods provide customers with the right to volume discounts and allowances. The right to volume discounts and allowances gives rise to variable consideration. The Group offers volume allowances retrospectively to certain customers when the quantity of products purchased during the period exceeds a threshold specified in the contract. Discounts and allowances are offset against amounts payable by the customer.

**(ii) Commercial agreements**

The Group recognizes such net revenue from commercial agreements, which Management considers are included in item 70 of CPC 47, since it refers to a consideration payable to the customer.

**e. Financial revenues and expenses**

Financial revenues include revenue from short-term bank deposit, interest on receivables, discounts obtained, exchange variation, and other financial revenue. Interest revenue is recognized in statements of profit or loss using the effective interest method.

The financial expenses include expenses with interest on loans, exchange variation, discounts granted among other financial expenses.

**f. Employee benefits**

**(i) Short-term benefits to employees**

Obligations of short-term benefits to employees are measured under a non-discounted basis and are incurred as expenses as the corresponding service is rendered. The liability is recognized by the amount of the expected payment if the Group has a present legal or constructive obligation to pay this amount based on past service provided by the employee and the obligation can be estimated reliably.

**(ii) Share of profit**

The Group recognizes a liability and a share of profit expense when there is a contractual obligation or when there was a previous practice which created a constructive obligation.

**g. Government subsidies**

Government subsidies are recognized when there is reasonable assurance that the benefit will be received and that all corresponding conditions will be met. When the benefit refers to an expense item, it is recognized as revenue over the benefit period, systematically in relation to the costs which benefit it is intended to offset.

The Company has a government subsidy represented by the credit benefit arising from the Federal District's Integrated and Sustainable Economic Development Promotion Program (PRÓ-DF), granted in the form of a subsidized loan obtained from Banco Regional de Brasília (BRB) (Note 0). The economic benefit obtained is accounted for as deferred income and recorded in the statement of profit or loss in equal amounts according to the authorization of the Pro-DF program for settlement of the installments and regularization of the subsidy.

The Company considers the conditions and obligations it has to observe and comply with, when identifying the costs to be compared to the economic benefit obtained.

The effects of this calculation were recorded in profit or loss for the fiscal year in line item "Revenue Deductions", since the origin of the subsidized loan refers to a credit operation on ICMS (State Value-Added Tax on Goods and Services) related to services rendered in Interstate and Intercity Transportation and Communication generated in imports. Interest incurred over the term of the loans is recorded as expense in financial income. Currently, we are only awaiting authorization to settle some remaining installments to realize deferred income.

The Company, which operates in the pharmaceutical industry in the State of São Paulo, is a beneficiary of the complementary law 160. By virtue of the law, the Company enjoys an exemption from the ICMS (State Value-Added Tax on Goods and Services) in the sale of certain products.

**h. Current and deferred income tax and social security contribution**

Income tax and social security contribution for current and deferred fiscal years are calculated based on the 15% tax rate, plus other 10% on taxable income exceeding R\$240 for income tax, and 9% on taxable income for social security contribution on net income, and they consider offsetting of tax losses and negative basis of social security contribution, limited to 30% of annual taxable income, in case they exist.

Income tax and social security contribution expenses for the period include current and deferred taxes. Income tax is recognized in the statement of profit or loss, except to the extent that it is related to items recognized directly in equity or in comprehensive income, if applicable.

**(i) Current income tax and social security contribution expenses**

Current tax expenses are the payable or receivable tax that is expected on taxable profit or loss for the fiscal year, as well as any adjustment in payable taxes referring to previous fiscal years. The sum of current taxes payable or receivable is recognized in the statement of financial position as tax asset or liability according to the best estimate of expected amount of taxes to be paid or received, which reflect uncertainties related to its assessment, if any. It is measured based on the tax rates decreed on reporting date. Current tax assets and liabilities are only offset if certain criteria are met.

**(ii) *Impact on the IRPJ and CSLL bases from the State of São Paulo government benefit***

As mentioned in note 8g, the Company, due to its performance in the pharmaceutical business in the State of São Paulo, is exempt from the ICMS (State Value-Added Tax on Goods and Services) in the sale of certain products.

For the purposes of determining the income tax - legal entity (IRPJ) and the social security contribution on net income (CSLL), as established in article 30 of Law 12.973/2014, the subsidies granted so as to stimulate the establishment or expansion of business enterprises and donations made by the government will not be calculated in determining taxable income, provided the requirements established herein are complied with.

Thus, the amounts recorded by the Company in 2019 from the government subsidy should not affect IRPJ and CSLL bases, for which reason they have been excluded from the LALUR and LACS calculations.

**(iii) *Expenses with deferred income tax and social security contribution***

Deferred income tax and social security contribution are recognized in relation to temporary differences between carrying amounts of assets and liabilities for financial statements purposes, and used for taxation purposes. Changes in deferred tax assets and liabilities in fiscal year are recognized as deferred income tax and social security contribution expense.

A deferred tax asset is recognized in relation to deductible temporary differences, when it is probable that future taxable income will be available and against which they will be used. Future taxable income is determined based on reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to fully recognize a deferred tax asset, the future taxable income adjusted for the reversal of the existing temporary differences will be considered, based on Company's business plans.

Assets and liabilities deferred income taxes are shown by net amount in the statement of financial position when there is legal right and intention to offset them when calculating current taxes, in general related to the same legal entity and same tax authority.

**i. *Inventories***

Inventories are shown at cost or at net realizable value, whichever is lower. The method of valuation of inventories is the weighted average method. The cost of finished products and products under development comprises project costs, raw materials, direct labor, other direct costs and their respective direct production costs (based on normal operating capacity). The net realizable value is the estimated selling price in the ordinary course of business, less the estimated completion costs and the estimated costs required to effect the sale.

The provision for inventory losses is recorded based on the criteria disclosed in note 8.n.

**j. Fixed assets**

Land and buildings comprise mainly facilities and offices. Fixed assets are measured by their historical cost, less accumulated depreciation. Historical cost includes expenses directly attributable to the acquisition of items.

Subsequent expenditure is included in carrying amount of the asset or recognized as a separate asset, as appropriate, only when future economic benefits associated with these costs are likely to inure to the company and can be reliably measured. The carrying amount of replaced items or parts is written-off. All other repairs and maintenance are recorded as counter entry to profit or loss for the fiscal year, when incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method, considering its costs and residual values in estimated useful life, as follows:

	<b>Years</b>
Aircraft	15
Improvements	30
Buildings	60
Machinery	between 3-25
Vehicles	5
Furniture, fixtures and equipment	between 5-25

The residual values and the useful life of the assets are reviewed and adjusted, if appropriate, at the end of each fiscal year.

The carrying amount of an asset is immediately written-off to its recoverable value when its carrying amount is higher than its estimated recoverable value.

Gains and losses from disposals are determined by comparison of the profit or loss with their carrying amount and are recognized in "Other revenues (expenses), net" in the statements of profit or loss.

**k. Intangible assets**

**(i) Software**

Software licenses are capitalized based on costs incurred in acquiring the software plus the costs of making it ready for use. These costs are amortized during the estimated useful life of software of 3 to 5 years.

The costs associated to maintenance of software are recognized as expense as incurred.

**l. Financial instruments**

**(i) Initial recognition and measurement**

Trade receivables and debt securities are initially recognized on the date they were originated. All other financial assets and liabilities are initially recognized when the Company becomes one of the parties to the contractual provisions of the instrument.

A financial asset (unless in case of trade receivables without a significant financing component) or financial liability is initially measured at fair value, plus, for an item not measured at FVTPL, the transaction costs that are directly attributable to acquisition or issue. Trade receivables without a significant financing component are initially measured at the transaction price.

**(ii) *Subsequent classification and measurement***

*Financial assets*

Upon initial recognition, a financial asset is classified as measured: at amortized cost; at fair value through other comprehensive income; or at fair value through profit or loss.

Financial assets are not reclassified subsequently to initial recognition, unless the Group changes the business model for the management of financial assets, in which case all affected financial assets are reclassified on the first day of the subsequent presentation period after the change in business model.

A financial asset is measured at amortized cost if it meets both the following conditions and is not designated as measured at fair value through profit or loss:

- it is maintained within a business model which objective is to maintain financial assets to receive contractual cash flows; and
- its contractual terms generate, on specific dates, cash flows that are related only to payment of principal and interest on outstanding principal amount.

A financial asset is measured at fair value through other comprehensive income if it meets both the following conditions and is not designated as measured at fair value through profit or loss:

- it is maintained within a business model which objective is achieved by both the receipt of contractual cash flows and the sale of financial assets; and
- its contractual terms generate, on specific dates, cash flows that are only payments of principal and interest on outstanding principal amount.
- All financial assets not classified as measured at amortized cost or at fair value through other comprehensive income, as described above, are classified as fair value through profit or loss.

*Financial assets - Evaluation of the business model*

The Group performs an evaluation of the business model objective in which a financial asset is held in portfolio, since this better reflects the way in which the business is managed and the information is provided to Management. Information considered includes:

- the policies and objectives stipulated for the portfolio and the practical operation of such policies. They include the knowledge of whether Management's strategy focuses on obtaining contractual interest income, maintaining a certain interest rate profile, matching the duration of financial assets with the duration of related liabilities or expected cash outflows, or the realization of cash flows through the sale of assets;
- how portfolio performance is assessed and reported to the Group's Management; and
- risks that affect business model performance (and the financial asset held in such business model) and the manner in which those risks are managed;

Financial assets held for trading or managed with performance measured at fair value are measured at fair value through profit or loss.

Assessment of whether contractual cash flows are only principal and interest payments.

For the purposes of contractual cash flow evaluation, "principal" is defined as fair value of financial asset at initial recognition. "Interest" is defined as a consideration for the value of money over time and for the credit risk associated with the outstanding principal amount over a given period of time and for the other basic risks and costs of borrowing (e.g. liquidity risk and administrative costs), as well as a profit margin.

The Group considers the contractual terms of the instrument to assess whether contractual cash flows are only principal and interest payments. This includes assessing whether the financial asset contains a contractual term that could change the timing or value of contractual cash flows so that it would not meet such condition. In making this assessment, the Group considers:

- contingent events that modify the value or timing of cash flows;
- terms that may adjust the contractual rate, including variable rates;
- prepayment or extension of the term; and
- terms limiting the Group's access to cash flows for specific assets (for example, based on the performance of an asset).

*Financial assets - Subsequent measurement and gains and losses:*

Financial assets measured at FVTPL	These assets are subsequently measured at fair value. Net income, including interest or dividend income, is recognized in profit or loss.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest revenue, exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt instruments at FVOCI	These assets are subsequently measured at fair value. Interest revenue calculated using the effective interest method, exchange gains and losses and impairment are recognized in profit or loss. Other net income is recognized in OCI. In derecognition, the accumulated income in OCI is reclassified to profit or loss.
Equity instruments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as gains in profit or loss, unless dividend represents a clear recovery of part of the investment cost. Other net income is recognized in OCI and is never reclassified to profit or loss.

*Financial Liabilities - Classification, subsequent measurement and gains and losses*

Financial liabilities were classified as measured at amortized cost or at FVTPL. A financial liability is classified as measured at fair value through profit or loss if it is classified as held for trading, is a derivative or is designated as such at initial recognition. Financial liabilities measured at FVTPL are measured at fair value and net income, including interest, is recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expenses, exchange gains and losses are recognized in profit or loss. Any gain or loss upon derecognition is also recognized in profit or loss.



**(iii) Derecognition**

*Financial assets*

The Group derecognizes a financial asset when the contractual rights to the cash flows of the asset expire, or when the Group transfers the rights of receiving the contractual cash flows of a financial asset in a transaction in which essentially all of the risks and benefits of ownership of the financial asset are transferred, or in which the Company neither transfers, nor maintains substantially all risks and benefits of ownership of the financial asset, and also does not have control over the financial asset.

The Group carries out transactions in which it transfers assets recognized in the statement of financial position, but retains all or substantially all the risks and benefits of the assets transferred. In such cases, financial assets are not derecognized.

*Financial liabilities*

The Group derecognizes a financial liability when its contractual obligations are withdrawn, canceled or matured. The Group also derecognizes a financial liability when the terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Upon derecognition of a financial liability, the difference between the extinct carrying amount and the paid consideration (including transferred assets that do not circulate through the cash or liabilities assumed) is recognized in profit or loss.

**(iv) Offsetting**

The financial assets or liabilities are offset, and the net amount is presented in the statement of financial position when, and only when, the Group has the legal right to offset the amounts and has the intention of settling them on a net basis, or realizing the asset and settling the liability simultaneously.

**(v) Derivative financial instruments**

The Group does not carry out transactions with derivative financial instruments.

**(i) Impairment**

**(i) Non-derivative financial assets**

The Group recognizes a provision for expected credit losses for financial assets measured at amortized cost. The expected credit loss is the probability-weighted estimate of the credit loss. The Group measures the provisions for losses on trade receivables at amounts equivalent to lifetime expected credit losses that result from all possible default events over the expected life of the financial instrument.

For trade receivables and contract assets, the Group applies a simplified approach to calculating expected credit losses. Therefore, the Group does not monitor changes in credit risk, but recognizes a loss provision based on lifetime expected credit losses at each base date. The Group has established a matrix of provisions that is based on its historical credit loss experience, adjusted for prospective factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are overdue for 120 days. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the full contractual amounts outstanding before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The Group does not expect any significant recovery of the amount written-off. However, financial assets written off may still be subject to credit collection, in compliance with procedures of the Group for the recovery of the amounts due.

**(vi) Non-financial assets**

The carrying amounts of non-financial assets of the Group, which are neither inventories nor deferred tax assets, are revised on each reporting date of the statement of financial position to assess if there are signs of impairment loss. If there is such indication, then the recoverable value of the asset is estimated.

For impairment tests, assets are grouped into Cash Generating Units (CGUs), that is, the smallest possible group of assets that generates cash inflows due to their continuous use, which are largely independent of cash entries of other assets or CGUs.

The recoverable value of an asset or CGU is its value in use or its fair value less sales costs, whichever is greater. The value in use is based on estimated future cash flows, discounted to present value, using a pre-tax discount rate that reflects current market evaluations and the value of money over time, and the specific risks of the asset or the CGU.

An impairment loss, if any, is recognized if the carrying amount of the asset or CGU exceeds its recoverable value.

**m. Leases**

Up to December 31, 2018, the Company classified financial lease contracts at the time of contracting. Leases in which a significant portion of the risks and rewards of ownership were retained by the lessor were classified as operating leases. Payments made for operating leases were recorded as an expense for the fiscal year using the straight-line method during the lease period.

As of December 31, 2018, the Company did not have any leases classified as financial leases in accordance with CPC 06 (R1).

As of January 1, 2019, the Company applied CPC 06 (R2), which introduced a single lease model, replacing the concept of classification between operating and financial lease, which was applied by the Company up to December 31, 2018. The impact of applying this new norm is illustrated in notes 6, 18 and 20.

**n. Provisions**

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation which can be reliably estimated, and it is likely that an outflow of economic benefits will be required to settle the obligation.

We present below the criteria for constitution of main provisions:

***Provision for impairment losses on trade receivables (Note 13)***

The provision for impairment losses on trade receivables is recorded in accordance with the scope of CPC 48 impairment model, as described in note 8(1) – Impairment of financial assets

Balances overdue on trade receivables from related parties are not provisioned.

***Provision for inventory losses (Note 14)***

The provision is constituted based on the internal policy defined by the Group, which takes into account losses in realization of inventories. These losses may be related to batches of expired and expiring medicines within 180 days and products used in research and development.

***Provision for losses in legal proceedings (Note 21)***

The Group is a party in administrative and legal proceedings. Based on the assessment of its external and internal advisors, provisions are recorded for all risks related to legal proceedings that represent probable and estimated losses with a certain degree of certainty.

The evaluation of probability of loss includes evaluation of available evidence, law hierarchy, available case law, most recent decisions by courts and their relevance according to the law.

**o. Distributions of dividends and interest on equity**

The distribution of dividends to the Company's shareholders is recognized as a liability in the Group's financial statements at the end of each fiscal year, based on the Company's bylaws. Any amount superior to the mandatory minimum is only provisioned in the date in which it is approved by shareholders.

**p. Financial guarantees**

Financial guarantees are contracts that require specific payments from the Group to the holder of the financial guarantee for a loss incurred by it when a specific debtor fails to make payment under the terms of the debt instrument.

Financial guarantee liabilities are initially recognized at fair value, which is amortized over the term of the financial guarantee agreement. The guarantee liability is subsequently accounted for at the higher of the amortized value and the present value of the expected payment (when a guarantee payment becomes probable).

As of December 31, 2019, and 2018, the Company did not recognize fair values of its financial guarantees as it judged them to have low credit risk due to the issuer. The operations in which the Group acts as intervening guarantor are detailed in note 10 - Financial risk management.

## **9 New standards and interpretations not yet in effect**

A series of new standards will be effective for fiscal years beginning as of January 1, 2019. The Group did not adopt such changes for the preparation of these financial statements.

The following amended standards and interpretations should not have a material impact on Group's financial Statements.

- Changes to the references to the conceptual framework in CPC00 standards.
- Definition of a business (changes to CPC 15).
- Definition of materiality (amendments to CPC 26 and CPC 23).

## **10 Financial risk management**

The Group shows exposure to the following risks deriving from the use of financial instruments:

- Market risk;
- Exchange risk;
- Credit risk;
- Liquidity risk; and
- Operating risk

### **a. Overview**

The risk management policies are established to identify and analyze risks faced by the Company and its subsidiaries to define proper risk limits and controls, and to monitor risks and compliance with limits. The risk management policies and systems are frequently revised to reflect changes in market conditions and in Group's activities.

Risk management is carried out by the Group's central treasury, according to policies approved by Board of Directors. The Group's Treasury identifies, evaluates and protects the companies against possible financial risks in cooperation with the Group's operating units.

The Group's Board of Directors establishes principles for global risk management, as well as for specific areas such as exchange risk, interest rate risk, credit risk and investment of cash surpluses.

### **b. Market risk**

Market risk is the risk that alterations in market prices, such as exchange rates and interest rates, will affect the Group's earnings or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group uses derivatives to manage market risks for some of its operations.

All operations are made according to guidelines established by Management.

As of December 31, 2019 and 2018, the Group had no derivatives operations not settled in its financial statements.

(i) **Exchange risk**

The Group operates internationally and is exposed to exchange risk from some currencies, basically related to the United States dollar ("USD"). The exchange risk derives from transactions with suppliers and customers abroad.

Management established a policy that requires Group companies to manage their exchange risk in relation to their functional currency.

Exposure to exchange risk (net) is presented as follows:

	<b>Parent</b>			
	<b>2019</b>		<b>2018</b>	
	<b>Foreign Currency</b>	<b>Reais</b>	<b>Foreign Currency</b>	<b>Reais</b>
Trade receivables (note 13)	737	3,211	693	2,685
Foreign suppliers (note 19)	(13,803)	(55,662)	(32,807)	(122,618)
Leasing (note 20)	(47,791)	(192,184)	(54,912)	(212,143)
Net exposure	<b>(60,857)</b>	<b>(244,635)</b>	<b>(87,026)</b>	<b>(332,076)</b>
	<b>Consolidated</b>			
	<b>2019</b>		<b>2018</b>	
	<b>Foreign Currency</b>	<b>Reais</b>	<b>Foreign Currency</b>	<b>Reais</b>
Trade receivables (note 13)	682	3,580	693	2,685
Foreign suppliers (note 19)	(14,144)	(58,258)	(33,067)	(123,625)
Leasing (note 20)	(47,791)	(192,184)	(54,912)	(212,143)
Net exposure	<b>(61,253)</b>	<b>(246,862)</b>	<b>(87,286)</b>	<b>(333,083)</b>

(ii) **Sensitivity analysis - exchange risk**

The Group analyses, jointly, for purposes of sensitivity analysis of market risks, the positive and negative positions indexed in foreign currency.

For the sensitivity analysis of operations indexed in foreign currency, the Management adopted as a likely scenario the amounts recognized for accounting purposes. As reference, deterioration and appreciation on the exchange rate used for calculation of those presented in the accounting records were considered for the other scenarios. The scenarios were estimated with an appreciation and depreciation of 25% and 50%, respectively, of the Real in the likely scenario.

The methodology used for calculating the balances shown in the table below was to replace the closing exchange rate used for bookkeeping purposes by the stressed rates pursuant to the scenarios below. The table below shows some impacts on income in the event of the respective scenarios presented for transactions indexed to the Dollar:

<b>Parent</b>									
<b>Risk</b>	<b>Type</b>	<b>Exposure</b>	<b>Original Exposure (R\$)</b>	<b>Effective rate as of 12/31/2019</b>	<b>Probable</b>	<b>Valuation of 25%</b>		<b>Valuation of 50%</b>	
					<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>
Dollar Appreciation	Customers	737	3,211	4.03	(241)	5.04	502	7.56	2,358
Dollar Appreciation	Suppliers	(13,803)	(55,662)	4.03	27	5.04	(13,882)	7.56	(48,654)
Dollar Appreciation	Financial lease	(47,791)	(192,184)	4.03	(447)	5.04	(48,605)	7.56	(168,999)
		<u>(60,857)</u>	<u>(244,635)</u>		<u>(661)</u>		<u>(61,985)</u>		<u>(215,295)</u>
<b>Risk</b>	<b>Type</b>	<b>Original Exposure</b>	<b>Exposure (R\$)</b>	<b>Effective rate on 12/31/2019</b>	<b>Probable</b>	<b>25% deterioration</b>	<b>50% deterioration</b>		
					<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>
Dollar decline	Customers	737	3,211	4.03	(241)	3.02	(983)	1,51	(2,097)
Dollar decline	Suppliers	(13,803)	(55,662)	4.03	27	3.02	13,936	1,51	34,779
Dollar decline	Financial lease	(47,791)	(192,184)	4.03	(447)	3.02	47,711	1,51	119,947
		<u>(60,857)</u>	<u>(244,635)</u>		<u>(661)</u>		<u>60,664</u>		<u>152,629</u>
<b>Consolidated</b>									
<b>Risk</b>	<b>Type</b>	<b>Exposure</b>	<b>Original Exposure (R\$)</b>	<b>Effective rate on 12/31/2019</b>	<b>Probable</b>	<b>Valuation of 25%</b>		<b>Valuation of 50%</b>	
					<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>
Dollar Appreciation	Customers	682	3,211	4.03	(461)	5.04	227	7.56	1,946
Dollar Appreciation	Suppliers	(14,144)	(55,662)	4.03	(1,347)	5.04	(15,599)	7.56	(51,229)
Dollar Appreciation	Financial lease	(47,791)	(192,184)	4.03	(447)	5.04	(48,605)	7.56	(168,999)
		<u>(61,253)</u>	<u>(246,862)</u>		<u>(2,255)</u>		<u>(63,977)</u>		<u>(218,282)</u>
<b>Risk</b>	<b>Type</b>	<b>Exposure</b>	<b>Original Exposure (R\$)</b>	<b>Effective rate on 12/31/2019</b>	<b>Probable</b>	<b>Deterioration of 25%</b>		<b>Deterioration of 50%</b>	
					<b>Amount</b> <td><b>%</b></td> <td><b>Amount</b> <td><b>%</b></td> <td><b>Amount</b></td> </td>	<b>%</b>	<b>Amount</b> <td><b>%</b></td> <td><b>Amount</b></td>	<b>%</b>	<b>Amount</b>
Dollar decline	Customers	682	3,211	4.03	(461)	3.02	(1,148)	1,51	(2,179)
Dollar decline	Suppliers	(14,144)	(55,662)	4.03	(1,347)	3.02	12,905	1,51	34,284
Dollar decline	Financial lease	(47,791)	(192,184)	4.03	(447)	3.02	47,711	1,51	119,947
		<u>(61,253)</u>	<u>(246,862)</u>		<u>(2,255)</u>		<u>59,468</u>		<u>152,052</u>

<b>Parent</b>										
<b>Risk</b>	<b>Type</b>	<b>Exposure</b>	<b>Original exposure (R\$)</b>	<b>Effective rate as of 12/31/18</b>	<b>Probable</b>		<b>25% valuation</b>		<b>50% valuation</b>	
					<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Dollar Appreciation	Customers	693	2,685	3.87	(7)	4.84	665	7.27	2,343	
Dollar Appreciation	Suppliers	31,198	115,643	3.87	(29)	4.84	28,874	7.27	101,132	
Euro rise	Suppliers	1,560	6,925	4.44	-	5.55	1,731	8.32	6,060	
Yen rise	Suppliers	49	50	0.04	(48)	0.04	(48)	0.07	(46)	
Dollar Appreciation	Financial lease	54,912	212,143	3.87	630	4.84	53,823	7.27	186,806	
		<u>87,051</u>	<u>337,543</u>		<u>546</u>		<u>85,045</u>		<u>296,295</u>	
<b>Risk</b>	<b>Type</b>	<b>Exposure</b>	<b>Original exposure (R\$)</b>	<b>Effective rate on 12/31/2018</b>	<b>Probable</b>		<b>25% deterioration</b>		<b>50% deterioration</b>	
					<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Dollar decline	Customers	693	2,692	3.87	(7)	2.91	(678)	1.45	(1,685)	
Dollar decline	Suppliers	29,837	115,643	3.87	(29)	2.91	(28,933)	1.45	(72,288)	
Euro decline	Suppliers	1,560	6,925	4.44	-	3.33	(1,731)	1.66	(4,328)	
Yen decline	Suppliers	49	50	0.04	(48)	0.03	(48)	0.01	(49)	
Dollar decline	Financial lease	54,912	212,143	3.87	630	2.91	(52,563)	1.45	(132,353)	
		<u>87,051</u>	<u>337,543</u>		<u>546</u>		<u>(83,953)</u>		<u>(210,703)</u>	
<b>Consolidated</b>										
<b>Risk</b>	<b>Type</b>	<b>Exposure</b>	<b>Original exposure (R\$)</b>	<b>Effective rate as of 12/31/18</b>	<b>Probable</b>		<b>25% valuation</b>		<b>50% valuation</b>	
					<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Dollar Appreciation	Customers	693	2,692	3.87	(7)	4.84	665	7.27	2,343	
Dollar Appreciation	Suppliers	29,874	116,621	3.87	(867)	4.84	28,072	7.27	100,418	
Euro rise	Suppliers	1,560	6,925	4.44	-	5.55	1,731	8.32	6,060	
Yen rise	Suppliers	1,410	50	0.04	-	0.04	12		44	
Dollar Appreciation	Financial lease	54,912	212,143	3.87	630	4.84	53,823	7.27	186,806	
		<u>88,449</u>	<u>338,431</u>		<u>(244)</u>		<u>84,303</u>		<u>295,671</u>	
<b>Risk</b>	<b>Type</b>	<b>Exposure</b>	<b>Original exposure (R\$)</b>	<b>Effective rate as of 12/31/18</b>	<b>Probable</b>		<b>25% deterioration</b>		<b>50% deterioration</b>	
					<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Dollar decline	Suppliers	693	2692	3.87	(7)	2.91	(678)	1.45	(1,685)	
Dollar decline	Suppliers	29,874	116,621	3.87	(867)	2.91	(29,805)	1.45	(73,213)	
Euro decline	Suppliers	1,560	6,925	4.44	-	3.33	(1,731)	1.66	(4,328)	
Yen decline	Suppliers	1,410	50	0.04	-	0.03	(12)	0.01	(31)	
Dollar decline	Financial lease	54,912	212,143	3.87	630	2.91	(52,563)	1.45	(132,353)	
		<u>88,449</u>	<u>338,431</u>		<u>(244)</u>		<u>(84,789)</u>		<u>(211,610)</u>	

**c. Credit risk**

Credit risk is managed at Group level. Credit risk derives from cash and cash equivalents, as well as exposure to customers credits, including outstanding trade receivables and repurchase operations. The credit analysis area evaluates the quality of customer's credit, taking into account its financial position, experience and other factors.

The limits for individual risk are determined based on internal classifications according to the limits determined by Board of Directors. The use of credit limits is regularly monitored.

As of December 31, 2019 and 2018, the maximum exposure to credit risk is:

	<b>Parent</b>		<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Cash and cash equivalents (note 11)	71,529	128,685	149,240	252,346
Trade receivables (note 13)	575,785	382,804	749,005	519,863
Other receivables (note 16)	58,848	286,068	69,336	266,283
Financial investment related to loan (note 12)	4,124	3,635	4,124	3,635
Loan between related parties (note 31 .g)	316,093	227,961	316,093	227,961
	<b><u>1,026,379</u></b>	<b><u>1,029,153</u></b>	<b><u>1,287,798</u></b>	<b><u>1,270,088</u></b>

The evaluation policy for impairment loss provision of financial assets is shown in note 8.

Management does not expect any loss from these counterparties, higher than the amount already provisioned.

#### ***Cash and cash equivalents and derivatives***

The Group held "Cash and cash equivalents" amounting to R\$71,529 and R\$149,240 as of December 31, 2019 (R\$128,685 and R\$252,346 in 2018). "Cash and cash equivalents" are held with a financial institution rated stable or above, according to the Moody's Agency scale.

#### ***Warranties***

The Group's policy is to provide financial guarantees only for obligations of its subsidiaries and associates. As of December 31, 2019 and 2018, the Group had issued guarantees to certain banks in respect of facilities granted to Group companies, as follows:

- As of September 6, 2018, associate 3Z Realty Desenvolvimento Imobiliário S.A raised R\$130,000 through the CRI (Real Estate Receivables Certificate), guaranteed by the Company's corporate guarantee, rated and backed by debentures non-convertible into shares. The remuneration is 102.5% at CDI, with principal maturing as of August 26, 2021 and amortization of semiannual interest.
- The loans granted to the related party 3Z are secured by shareholders' collateral, and we therefore assessed the instrument as having low credit risk, for which reason no impairment was recorded in the financial statements.
- Associate 3Z Realty Desenvolvimento Imobiliário S.A obtained real estate financing used for the construction of residential real estate properties (real estate development plan) with interest rates adjusted by TR plus 10.5% to 15% per year and which are guaranteed by fiduciary sale and guarantee of the Company and its shareholders. As of December 31, 2019, the balance is R\$132.370 (R\$132,549 as of December 31, 2018).



Additionally, the Company is guarantor of obligations assumed by other companies, as follows:

- Lorraine Administradora de Bens e Participações Sociedade Simples Ltda. in raising funds from the Financing Agency for Studies and Projects (FINEP) in the amount of R\$193,686 and payment term as of December 12, 2023.
- Lorraine Administradora de Bens e Participações Sociedade Simples Ltda. in raising funds from the FINEP in the amount of R\$80,835 and payment term as of February 27, 2019.
- Unidade de Diagnóstico Médico em Radiologia Intervenção e Terapia Ltda. in raising funds from FINEP in the amount of R\$18,143 and payment term as of February 8, 2021.

**d. Liquidity risk**

Cash flows estimate is carried out by the finance department. Such department monitors continuous estimates of liquidity requirements of the Group in order to assure that it has sufficient cash to meet operational needs. It also maintains sufficient margins in its repurchase credit facilities available (Note 20) at any time, so that the Group does not fail to comply with the loan limits or sections, where applicable, in any of its credit facilities. Such estimate takes into account the Group's debt financing plans, compliance with sections, compliance with the internal targets of the statement of financial position ratio and, if applicable, external or legal regulatory requirements such as currency restrictions.

The Treasury Department invests excess cash in interest-bearing bank accounts, term deposits, short-term deposits and securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient margin, as determined by the aforementioned forecasts.

The table below analyzes non-derivative financial liabilities of the Group, by maturity ranges, corresponding to the remaining period of reporting date of the statement of financial position and the contractual maturity date, where it applies only to financial instruments, therefore, obligations arising from legislation are not included.

	<b>Parent</b>				
	<b>Contractual cash flow</b>	<b>Less than one year</b>	<b>Between one and two years</b>	<b>Between two and five years</b>	<b>Over five years</b>
<b>As of December 31, 2019</b>					
Trade and other payables	(294,777)	(289,443)	(5,334)	-	-
Trade payables – related parties	(1,136,468)	(1,136,468)	-	-	-
Loans and borrowings	(370,023)	(84,712)	(53,878)	(52,693)	(178,740)
Dividends payable	(117,160)	(117,160)	-	-	-
Net position	<u>(1,918,426)</u>	<u>(1,627,783)</u>	<u>(59,212)</u>	<u>(52,693)</u>	<u>(178,740)</u>
<b>As of December 31, 2018</b>					
Trade and other payables	(375,522)	(368,590)	(6,933)	-	-
Trade payables – related parties	(901,370)	(901,370)	-	-	-
Loans and borrowings	(338,940)	(53,123)	(136,894)	(141,800)	(7,124)
Dividends payable	(90,170)	(90,170)	-	-	-
Net position	<u>(1,706,002)</u>	<u>(1,413,253)</u>	<u>(143,827)</u>	<u>(141,800)</u>	<u>(7,124)</u>

	<b>Consolidated</b>				
	<b>Contractual cash flow</b>	<b>Less than one year</b>	<b>Between one and two years</b>	<b>Between two and five years</b>	<b>Over five years</b>
<b>As of December 31, 2019</b>					
Trade and other payables	(317,580)	(312,246)	(5,334)	-	-
Trade payables – related parties	(1,142,291)	(1,142,291)	-	-	-
Loans and borrowings	(378,543)	(88,189)	(53,932)	(52,693)	(183,729)
Dividends payable	(122,289)	(122,289)	-	-	-
Net position	<u>(1,960,703)</u>	<u>(1,665,015)</u>	<u>(59,266)</u>	<u>(52,693)</u>	<u>(183,729)</u>
<b>As of December 31, 2018</b>					
Trade and other payables	(397,751)	(390,817)	(6,933)	-	-
Trade payables – related parties	(902,738)	(902,738)	-	-	-
Loans and borrowings	(338,940)	(53,123)	(136,894)	(141,800)	(7,124)
Dividends payable	(95,299)	(95,299)	-	-	-
Net position	<u>(1,734,728)</u>	<u>(1,441,977)</u>	<u>(143,827)</u>	<u>(141,800)</u>	<u>(7,124)</u>

The analysis of maturities applies only to financial liabilities instruments and therefore, the obligations arising from the current legislation are not included.

**e. Operating risk**

Operating risk is the risk of direct or indirect losses deriving from a variety of causes associated to processes, personnel, technology and infrastructure of the Group and of external factors, except for credit, market and liquidity risks, such as those deriving from legal and regulatory requirements and from generally accepted standards of business behavior. Operating risks arise from all Group's operations.

The purpose of the Group is of managing the operating risk to avoid incurring financial losses and damages to the Group's reputation, as well as seeking cost efficiency to avoid control procedures that restrict initiative and creativity.

The main responsibility for development and implementation of controls to deal with operating risks is attributed to Senior Management. The responsibility is supported by the development of general standards of the Group for management of operating risks in the respective areas.

**(i) Capital management**

The Group's objectives in managing its capital are to safeguard its going concern and offer a return to shareholders, and benefits to other stakeholders, as well as maintaining an ideal capital structure to reduce such cost.

In order to maintain or adjust the Group's capital structure, Management may, or may not, in cases where shareholders' approval is required, review the dividend policy, return capital to shareholders, or to sell assets, for example, to reduce the level of indebtedness.

The Group monitors the capital based on the financial leverage ratio. This ratio corresponds to net debt expressed as a percentage of total capital. Net debt, in its turn, corresponds to total loans (including short- and long-term loans, as shown in consolidated statement of financial position), less the amount of cash and cash equivalents. The total capital is ascertained by the sum of the equity, as shown in consolidated statement of financial position, and the net debt.

In 2019, the Group's strategy, unchanged from that of 2018, was to maintain the financial leverage ratio between 1.05% and 1.09%.

Financial leverage ratios as of December 31, 2019 and 2018, may be summarized (consolidated):

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
Total of loans (note 20)	378,543	317,729
Less: cash and cash equivalents (note 11)	(149,240)	(252,346)
Net debt	229,303	65,383
Total equity	1,157,106	852,751
Total capital	1,386,409	918,134
Financial leverage ratio	1.20%	1.08%

**f. Classification of instruments**

Non-derivative financial instruments are classified as amortized cost and other financial liabilities. There are no other financial instruments classified in other categories apart from those listed below:

	<b>Parent</b>		<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>Amortized cost</b>	<b>Amortized cost</b>	<b>Amortized cost</b>	<b>Amortized cost</b>
Cash and cash equivalents	71,529	128,685	149,240	252,346
Trade receivables	575,785	382,804	749,005	519,863
Trade receivables from related parties	268,570	118,528	232,323	150,511
Dividends receivable	119,770	239,770	-	-
Loans receivable	316,093	227,961	316,093	227,961
Financial investment related to loan	4,124	3,635	4,124	3,635
Other receivables	58,848	286,068	69,336	266,283
Total financial assets	1,414,719	1,387,451	1,520,121	1,420,599

	<b>Parent</b>		<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>Other Liabilities Financial</b>	<b>Other Liabilities Financial</b>	<b>Other Liabilities Financial</b>	<b>Other Liabilities Financial</b>
Suppliers	(172,317)	(238,470)	(180,857)	(248,951)
Trade payables – related parties	(1,136,468)	(901,370)	(1,142,291)	(902,738)
Loans and borrowings	(370,023)	(317,621)	(378,543)	(317,729)
Dividends payable	(117,160)	(90,170)	(122,289)	(95,299)
Other trade payables	(122,460)	(137,053)	(136,723)	(148,800)
Total financial liabilities	(1,918,428)	(1,684,684)	(1,960,703)	(1,713,517)

(i) **Interest rate risk**

For sensitivity analysis purposes of interest rate risks, the Group reviews the exposure to CDI fluctuation, to which the funding of financial investments and loans is related. The interest rates did not present changes in these scenarios.

In order to review the sensitivity of interest rates on loans and financial investments, Management has adopted as the probable scenario the amounts recognized in the accounting records. As reference, for the other scenarios, the deterioration and appreciation on variable interest rate used for calculation in accounting records were considered. The scenarios were estimated with an appreciation and depreciation of 25% and 50%, respectively, of the interest rate in the probable scenario.

The table below shows some impacts in profit or loss in the event the related scenarios presented for these transactions:

*Exposure and interest rate sensitivity analysis*

<b>Parent</b>										
Exposure	Risk	Type	Maturity	Effective rate on 12/31/2019	Probable		25% valuation		50% valuation	
					Amount	%	Amount	%	Amount	
12,875	CDI increase	Financial investment	03/26/2020	5.29%	681	6.61%	45	7.93%	54	
10,864	CDI increase	Financial investment	N/A	5.94%	645	7.43%	48	8.91%	58	
10,337	CDI increase	Financial investment	07/10/2020	5.91%	611	7.39%	45	8.87%	54	
5,533	CDI increase	Financial investment	N/A	6.03%	334	7.54%	25	9.05%	30	
5,249	CDI increase	Financial investment	01/07/2020	6.02%	316	7.52%	24	9.03%	29	
3,780	CDI increase	Financial investment	07/02/2040	5.64%	213	7.05%	15	8.46%	18	
1,063	CDI increase	Financial investment	08/08/2024	5.64%	60	7.05%	4	8.46%	5	
211	CDI increase	Financial investment	10/01/2046	4.79%	10	5.99%	1	7.19%	1	
133	CDI increase	Financial investment	05/02/2047	5.05%	7	6.31%	-	7.57%	1	
11,981	CDI increase	Financial investment	12/11/2020 TO 12/23/2020	5.29%	633	6.61%	42	7.93%	50	
<u>62,026</u>					<u>3,510</u>		<u>249</u>		<u>300</u>	

<b>Parent</b>										
Exposure	Risk	Type	Maturity	Effective rate on 12/31/2018	Probable		25% valuation		50% valuation	
					Amount	%	Amount	%	Amount	
73,768	CDI increase	Financial investment	01/28/2019	5.18	3,824	6.48	248	7.78	297	
24,755	CDI increase	Financial investment	12/17/2020	5.76	1,426	7.20	103	8.64	123	
10,324	CDI increase	Financial investment	N/A	6.40	661	8.00	53	9.60	63	
5,273	CDI increase	Financial investment	N/A	6.50	343	8.12	28	9.75	33	
3,635	CDI increase	Financial investment related to loan	07/02/2040 to 05/30/2041	6.08	221	7.60	17	9.12	20	
<u>117,755</u>					<u>6,475</u>		<u>449</u>		<u>536</u>	

<b>Consolidated</b>										
<b>Exposure</b>	<b>Risk</b>	<b>Type</b>	<b>Maturity</b>	<b>Effective rate on 12/31/2019</b>	<b>Probable</b>		<b>25% valuation</b>		<b>50% valuation</b>	
					<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
12,875	CDI increase	Financial investment	03/26/2020	5.29%	681	6.61%	45	7.93%	54	
10,864	CDI increase	Financial investment	N/A	5.94%	645	7.43%	48	8.91%	58	
10,337	CDI increase	Financial investment	07/10/2020	5.91%	611	7.39%	45	8.87%	54	
5,533	CDI increase	Financial investment	N/A	6.03%	334	7.54%	25	9.05%	30	
5,249	CDI increase	Financial investment	01/07/2020	6.02%	316	7.52%	24	9.03%	29	
3,780	CDI increase	Financial investment	07/02/2040	5.64%	213	7.05%	15	8.46%	18	
1,063	CDI increase	Financial investment	08/08/2024	5.64%	60	7.05%	4	8.46%	5	
211	CDI increase	Financial investments	10/01/2046	4.79%	10	5.99%	1	7.19%	1	
133	CDI increase	Financial investment	05/05/2047	5.05%	7	6.31%	-	7.57%	1	
			12/11/2020 to							
11,981	CDI increase	Financial investment	12/23/2020	5.29%	633	6.61%	42	7.93%	50	
21,345	CDI increase	Financial investment	10/02/2020	5.85%	1,249	7.31%	91	8.78%	110	
9,283	CDI increase	Financial investment	03/23/2020	5.98%	555	7.48%	42	8.97%	50	
			09/03/2020 to							
7,669	CDI increase	Financial investment	12/29/2020	5.29%	405	6.61%	27	7.93%	32	
			01/30/2020 to							
7,540	CDI increase	Financial investment	02/11/2020	5.97%	450	7.46%	34	8.95%	40	
7,358	CDI increase	Financial investment	02/10/2020	5.97%	439	7.46%	33	8.95%	39	
6,020	CDI increase	Financial investment	03/02/2020	5.95%	358	7.44%	27	8.93%	32	
5,387	CDI increase	Financial investment	10/02/2020	5.85%	315	7.31%	23	8.78%	28	
3,481	CDI increase	Financial investment	01/24/2020	4.81%	167	6.01%	10	7.22%	12	
1,481	CDI increase	Financial investment	09/02/2020	5.85%	87	7.31%	6	8.78%	8	
<u>131,590</u>					<u>7,535</u>		<u>542</u>		<u>651</u>	

<b>Consolidated</b>										
<b>Exposure</b>	<b>Risk</b>	<b>Type</b>	<b>Maturity</b>	<b>Effective rate on 12/31/2018</b>	<b>Probable</b>		<b>25% valuation</b>		<b>50% valuation</b>	
					<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
73,768	CDI increase	Financial investment	01/28/2019	5.18	3,824	6.48	248	7.78	297	
26,919	CDI increase	Financial investment	09/03/2019	6.34	1,706	7.92	135	9.50	162	
26,540	CDI increase	Financial investment	03/21/2019	5.54	1,469	6.92	102	8.30	122	
24,755	CDI increase	Financial investment	12/17/2020	5.76	1,426	7.20	103	8.64	123	
15,612	CDI increase	Financial investment	03/20/2019	5.44	849	6.80	58	8.16	69	
15,530	CDI increase	Financial investment	03/26/2019	5.44	845	6.80	57	8.16	69	
14,243	CDI increase	Financial investment	12/19/2019	5.57	793	6.96	55	8.35	66	
10,324	CDI increase	Financial investment	N/A	6.40	661	8.00	53	9.60	63	
5,273	CDI increase	Financial investment	N/A	6.50	343	8.12	28	9.75	33	
		Financial investment	07/02/2040 to							
3,635	CDI increase	related to loan	05/30/2041	6.08	221	7.60	17	9.12	20	
3,486	CDI increase	Financial investment	02/06/2019	5.44	190	6.80	13	8.16	15	
2,722	CDI increase	Financial investment	02/27/2019	5.57	152	6.96	11	8.35	13	
2,368	CDI increase	Financial investment	03/06/2019	5.50	130	6.88	9	8.26	11	
1,639	CDI increase	Financial investment	N/A	6.02	99	7.52	7	9.02	9	
1,462	CDI increase	Financial investment	10/24/2019	5.44	80	6.80	5	8.16	6	
1,167	CDI increase	Financial investment	08/29/2019	6.02	70	7.52	5	9.02	6	
1,146	CDI increase	Financial investment	02/20/2019	5.50	63	6.88	4	8.26	5	
1,028	CDI increase	Financial investment	10/03/2023	6.02	62	7.52	5	9.02	6	
820	CDI increase	Financial investment	03/28/2019	5.31	44	6.64	3	7.97	3	
622	CDI increase	Financial investment	12/10/2019	5.50	34	6.88	2	8.26	3	
<u>233,059</u>					<u>13,061</u>		<u>920</u>		<u>1,101</u>	

<b>Parent</b>										
Exposure	Risk	Type	Maturity	Effective rate on 12/31/2019	Probable		25% deterioration		50% deterioration	
					Amount	%	Amount	%	Amount	%
12,875	CDI decrease	Financial investment	03/26/2020	5.29%	681	3.96%	27	2.64%	18	
10,864	CDI decrease	Financial investment	N/A	5.94%	645	4.46%	29	2.97%	19	
10,337	CDI decrease	Financial investment	07/10/2020	5.91%	611	4.43%	27	2.96%	18	
5,533	CDI decrease	Financial investment	N/A	6.03%	334	4.52%	15	3.02%	10	
5,249	CDI decrease	Financial investment	01/07/2020	6.02%	316	4.51%	14	3.01%	10	
3,780	CDI decrease	Financial investment	07/02/2040	5.64%	213	4.23%	9	2.82%	6	
1,063	CDI decrease	Financial investment	08/08/2024	5.64%	60	4.23%	3	2.82%	2	
211	CDI decrease	Financial investment	06/07/2046 to 10/01/2046	4.79%	10	3.59%	-	2.40%	-	
133	CDI decrease	Financial investment	05/02/2047	5.05%	7	3.79%	-	2.52%	-	
11,981	CDI decrease	Financial investment	12/11/2020 to 12/23/2020	5.29%	633	3.96%	25	2.64%	17	
<b>62,026</b>					<b>3,510</b>		<b>149</b>		<b>100</b>	

<b>Parent</b>										
Exposure	Risk	Type	Maturity	Effective rate on 12/31/2018	Probable		25% deterioration		50% deterioration	
					Amount	%	Amount	%	Amount	%
73,768	CDI decrease	Financial investment	01/28/2019	5.18	3,824	3.89	149	2.59	99	
24,755	CDI decrease	Financial investment	12/17/2020	5.76	1,426	4.32	62	2.88	41	
10,324	CDI decrease	Financial investment	N/A	6.40	661	4.80	32	3.20	21	
5,273	CDI decrease	Financial investment	N/A	6.50	343	4.87	17	3.25	11	
3,635	CDI decrease	Financial investment related to loan	07/02/2040 to 05/30/2041	6.08	221	4.56	10	3.04	7	
<b>117,755</b>					<b>6,475</b>		<b>270</b>		<b>179</b>	

<b>Consolidated</b>										
Exposure	Risk	Type	Maturity	Effective rate on 12/31/2019	Probable		25% deterioration		50% deterioration	
					Amount	%	Amount	%	Amount	%
12,875	CDI decrease	Financial investment	03/26/2020	5.29%	681	3.96%	27	2.64%	18	
10,864	CDI decrease	Financial investment	N/A	5.94%	645	4.46%	29	2.97%	19	
10,337	CDI decrease	Financial investment	07/10/2020	5.91%	611	4.43%	27	2.96%	18	
5,533	CDI decrease	Financial investment	N/A	6.03%	334	4.52%	15	3.02%	10	
5,249	CDI decrease	Financial investment	01/07/2020	6.02%	316	4.51%	14	3.01%	10	
3,780	CDI decrease	Financial investment	07/02/2040	5.64%	213	4.23%	9	2.82%	6	
1,063	CDI decrease	Financial investment	08/08/2024	5.64%	60	4.23%	3	2.82%	2	
211	CDI decrease	Financial investment	06/07/2046 and 10/01/2046	4.79%	10	3.59%	-	2.40%	-	
133	CDI decrease	Financial investment	05/02/2047	5.05%	7	3.79%	-	2.52%	-	
11,981	CDI decrease	Financial investment	12/11/2020 to 12/23/2020	5.29%	633	3.96%	25	2.64%	17	
21,345	CDI decrease	Financial investment	10/02/2020	5.85%	1,249	4.39%	55	2.93%	37	
9,283	CDI decrease	Financial investment	03/26/2020	5.98%	555	4.49%	25	2.99%	17	
7,669	CDI decrease	Financial investment	09/03/2020 to 12/29/2020	5.29%	405	3.96%	16	2.64%	11	
7,540	CDI decrease	Financial investment	01/30/2020 to 02/11/2020	5.97%	450	4.48%	20	2.98%	13	
7,358	CDI decrease	Financial investment	02/10/2020	5.97%	439	4.48%	20	2.98%	13	
6,020	CDI decrease	Financial investment	03/02/2020	5.95%	358	4.46%	16	2.98%	11	
5,387	CDI decrease	Financial investment	10/02/2020	5.85%	315	4.39%	14	2.93%	9	
3,481	CDI decrease	Financial investment	01/24/2020	4.81%	167	3.61%	6	2.41%	4	
1,481	CDI decrease	Financial investment	09/02/2020	5.85%	87	4.39%	4	2.93%	3	
<b>131,590</b>					<b>7,535</b>		<b>325</b>		<b>218</b>	

<b>Consolidated</b>										
Exposure	Risk	Type	Maturity	Effective rate on 12/31/2018	Probable		25% deterioration		50% deterioration	
					Amount	%	Amount	%	Amount	
73,768	CDI decrease	Financial investment	01/28/2019	5.18	3,824	3.89	149	2.59	99	
26,919	CDI decrease	Financial investment	09/03/2019	6.34	1,706	4.75	81	3.17	54	
26,540	CDI decrease	Financial investment	03/21/2019	5.54	1,469	4.15	61	2.77	41	
24,755	CDI decrease	Financial investment	12/17/2020	5.76	1,426	4.32	62	2.88	41	
15,612	CDI decrease	Financial investment	03/20/2019	5.44	849	4.08	35	2.72	23	
15,530	CDI decrease	Financial investment	03/26/2019	5.44	845	4.08	34	2.72	23	
14,243	CDI decrease	Financial investment	12/19/2019	5.57	793	4.18	33	2.78	22	
10,324	CDI decrease	Financial investment	N/A	6.40	661	4.80	32	3.20	21	
5,273	CDI decrease	Financial investment	N/A	6.50	343	4.87	17	3.25	11	
		Financial investment	07/02/2040 to							
3,635	CDI decrease	related to loan	05/30/2041	6.08	221	4.56	10	3.04	7	
3,486	CDI decrease	Financial investment	02/06/2019	5.44	190	4.08	8	2.72	5	
2,722	CDI decrease	Financial investment	02/27/2019	5.57	152	4.18	6	2.78	4	
2,368	CDI decrease	Financial investment	03/06/2019	5.50	130	4.13	5	2.75	4	
1,639	CDI decrease	Financial investment	N/A	6.02	99	4.51	4	3.01	3	
1,462	CDI decrease	Financial investment	10/24/2019	5.44	80	4.08	3	2.72	2	
1,167	CDI decrease	Financial investment	08/29/2019	6.02	70	4.51	3	3.01	2	
1,146	CDI decrease	Financial investment	02/20/2019	5.50	63	4.13	3	2.75	2	
1,028	CDI decrease	Financial investment	10/03/2023	6.02	62	4.51	3	3.01	2	
820	CDI decrease	Financial investment	03/28/2019	5.31	44	3.98	2	2.66	1	
622	CDI decrease	Financial investment	12/10/2019	5.50	34	4.13	1	2.75	1	
<u>233,059</u>					<u>13,061</u>		<u>552</u>		<u>368</u>	

<b>Parent</b>									
Exposure	Risk	Type	Effective rate on 12/31/2019	Probable		25% valuation		50% valuation	
				Amount	%	Amount	%	Amount	
192,958	Financial lease	Loan (Liability)	100	447	125	559	150	671	
95,139	Financial Lease	Lease (Liabilities)	100	4,334	125	5,417	150	6,500	
40,707	R&D Finep	Loan (Liability)	100	132	125	165	150	198	
20,087	Project - Brasília Plant	Loan (Liability)	100	87	125	108	150	130	
	Project - Research, Development and Innovation	Loan (Liability)	100	22	125	28	150	33	
7,441	Pró/DF	Loan (Liability)	100	276	125	345	150	414	
6,131	Modernization Project - Subcredit A	Loan (Liability)	100	7	125	8	150	10	
2,280	Expansion of CD - Jaguariúna Project	Loan (Liability)	100	6	125	7	150	8	
1,923	FINAME/Fabrima_Horizontal								
	Cartoning Machine - Non-sterile ointments FINA12	Loan (Liability)	100	4	125	5	150	6	
1,037	FINAME/Fabrima_Horizontal								
	Cartoning Machine - Eye Drops								
721	FINA11	Loan (Liability)	100	3	125	4	150	5	
535	Modernization Project - Subcredit B	Loan (Liability)	100	2	125	3	150	3	
	FINAME/Promáquina_								
341	Eye Drops FINA10	Loan (Liability)	100	1	125	1	150	2	
292	FINAME/Promáquina FINA06	Loan (Liability)	100	1	125	1	150	2	
	FINAME/Fabrima_Control Scale -								
233	B blister Stacker FINA14	Loan (Liability)	100	1	125	1	150	2	
	FINAME/Fabrima_Tube								
	Packaging Machine -								
145	Eye ointments FINA13	Loan (Liability)	100	1	125	1	150	2	
53	FINAME/Bauch Campos FINA07	Loan (Liability)	100	-	125	-	150	-	
<u>370,023</u>				<u>5,324</u>		<u>6,653</u>		<u>7,986</u>	

<b>Parent</b>									
Exposure	Risk	Type	Effective rate on 12/31/2018	Probable		25% valuation		50% valuation	
				Amount	%	Amount	%	Amount	%
213,539	Financial lease	Loan (Liability)	100	597	125	746	150	896	
52,658	R&D Finep	Loan (Liability)	100	180	125	225	150	270	
20,120	Project - Brasília Plant	Loan (Liability)	100	12	125	15	150	18	
7,419	Project - Research, Development and Innovation	Loan (Liability)	100	22	125	28	150	33	
6,819	Modernization Project - Subcredit A	Loan (Liability)	100	20	125	25	150	30	
6,519	Expansion of CD - Jaguariúna Project	Loan (Liability)	100	19	125	24	150	29	
2,052	Pró/DF	Loan (Liability)	100	133	125	167	150	200	
1,532	Modernization Project - Subcredit C	Loan (Liability)	100	58	125	73	150	87	
1,604	Modernization Project - Subcredit B	Loan (Liability)	100	4	125	5	150	6	
1,687	FINAME/Fabrima_Horizontal Cartoning Machine - Non-sterile ointments FINA12	Loan (Liability)	100	6	125	8	150	9	
1,198	FINAME/Fabrima_Horizontal Cartoning Machine - Eye Drops FINA11	Loan (Liability)	100	4	125	5	150	6	
857	FINAME/Promáquina_Liquid FINA09	Loan (Liability)	100	1	125	1	150	2	
567	FINAME/Promáquina_Eye Drops FINA10	Loan (Liability)	100	2	125	3	150	3	
386	FINAME/Promáquina FINA06	Loan (Liability)	100	-	125	-	150	-	
372	FINAME/Fabrima_Control Scale - Blister Stacker FINA14	Loan (Liability)	100	1	125	1	150	2	
223	FINAME/Fabrima_Tube Packaging Machine - Eye ointments FINA13	Loan (Liability)	100	1	125	1	150	2	
70	FINAME/Bauch Campos FINA07	Loan (Liability)	100	-	125	-	150	-	
<u>317,622</u>				<u>1,060</u>		<u>1,327</u>		<u>1,593</u>	

Exposure	Risk	Type	Effective rate on 12/31/2019	Probable		25% deterioration		50% deterioration	
				Amount	%	Amount	%	Amount	%
192,958	Financial lease	Loan (Liability)	100	447	75	335	50	224	
95,139	Financial Lease	Lease (Liabilities)	100	4,334	75	3,250	50	2,167	
40,707	R&D Finep	Loan (Liability)	100	132	75	99	50	66	
20,087	Project - Brasília Plant	Loan (Liability)	100	87	75	65	50	43	
7,441	Project - Research, Development and Innovation	Loan (Liability)	100	22	75	17	50	11	
6,131	Pró/DF	Loan (Liability)	100	276	75	207	50	138	
2,280	Modernization Project - Subcredit A	Loan (Liability)	100	7	75	5	50	3	
1,923	Expansion of CD - Jaguariúna Project	Loan (Liability)	100	6	75	4	50	3	
1,037	FINAME/Fabrima_Horizontal Cartoning Machine - Non-sterile ointments FINA12	Loan (Liability)	100	4	75	3	50	2	
721	FINAME/Fabrima_Horizontal Cartoning Machine - Eye Drops FINA11	Loan (Liability)	100	3	75	2	50	2	
535	Modernization Project - Subcredit B	Loan (Liability)	100	2	75	2	50	1	
341	FINAME/Promáquina_Eye Drops FINA10	Loan (Liability)	100	1	75	1	50	1	
292	FINAME/Promáquina FINA06	Loan (Liability)	100	1	75	1	50	1	
233	FINAME/Fabrima_Control Scale - Blister Stacker FINA14	Loan (Liability)	100	1	75	1	50	1	
145	FINAME/Fabrima_Tube Packaging Machine - Eye ointments FINA13	Loan (Liability)	100	1	75	1	50	1	
53	FINAME/Bauch Campos FINA07	Loan (Liability)	100	-	75	-	50	-	
<u>370,023</u>				<u>5,324</u>		<u>3,993</u>		<u>2,664</u>	



Exposure	Risk	Type	Effective rate on 12/31/2018	Probable		25% deterioration		50% deterioration	
				Amount	%	Amount	%	Amount	%
213,539	Financial lease	Loan (Liability)	100	597	75	448	50	299	
52,658	R&D Finep	Loan (Liability)	100	180	75	135	50	90	
20,120	Project - Brasflia Plant	Loan (Liability)	100	12	75	9	50	6	
7,419	Project - Research, Development and Innovation	Loan (Liability)	100	22	75	17	50	11	
6,819	Modernization Project - Subcredit A	Loan (Liability)	100	20	75	15	50	10	
6,519	Expansion of CD - Jaguariúna	Loan (Liability)	100	19	75	14	50	10	
2,052	Project Pró/DF	Loan (Liability)	100	133	75	100	50	67	
1,532	Modernization Project - Subcredit C	Loan (Liability)	100	58	75	44	50	29	
1,604	Modernization Project - Subcredit B	Loan (Liability)	100	4	75	3	50	2	
1,687	FINAME/Fabrima_Horizontal Cartoning Machine - Non-sterile ointments FINA12	Loan (Liability)	100	6	75	5	50	3	
1,198	FINAME/Fabrima_Horizontal Cartoning Machine - Eye Drops FINA11	Loan (Liability)	100	4	75	3	50	2	
857	FINAME/Promáquina_Liquid FINA09	Loan (Liability)	100	1	75	1	50	1	
567	FINAME/Promáquina_Eye Drops FINA10	Loan (Liability)	100	2	75	2	50	1	
386	FINAME/Promáquina FINA06	Loan (Liability)	100	-	75	-	50	-	
372	FINAME/Fabrima_Control Scale - Blister Stacker FINA14	Loan (Liability)	100	1	75	1	50	1	
223	FINAME/Fabrima_Tube Packaging Machine - Eye ointments FINA13	Loan (Liability)	100	1	75	1	50	1	
70	FINAME/Bauch Campos FINA07	Loan (Liability)	100	-	75	-	50	-	
<u>317,622</u>				<u>1,060</u>		<u>798</u>		<u>533</u>	

**Consolidated**

Exposure	Risk	Type	Rate effective on 12/31/2019	Probable		25% valuation		50% valuation	
				Amount	%	Amount	%	Amount	%
193,012	Financial lease	Loan (Liability)	100	448	125	560	150	672	
103,605	Financial Lease	Lease (Liabilities)	100	4,655	125	5,819	150	6,982	
40,707	R&D Finep	Loan (Liability)	100	132	125	165	150	198	
20,087	Project - Brasflia Plant	Loan (Liability)	100	87	125	108	150	130	
7,441	Project - Research, Development and Innovation	Loan (Liability)	100	22	125	28	150	33	
6,131	Project Pró/DF	Loan (Liability)	100	276	125	345	150	414	
2,280	Modernization Project - Subcredit A	Loan (Liability)	100	7	125	8	150	10	
1,923	Expansion of CD - Jaguariúna	Loan (Liability)	100	6	125	7	150	8	
1,037	Project FINAME/Fabrima_Horizontal Cartoning Machine - Non-sterile ointments FINA12	Loan (Liability)	100	4	125	5	150	6	
721	FINAME/Fabrima_Horizontal Cartoning Machine - Eye Drops FINA11	Loan (Liability)	100	3	125	4	150	5	
535	Modernization Project - Subcredit B	Loan (Liability)	100	2	125	3	150	3	
341	FINAME/Promáquina_Eye Drops FINA10	Loan (Liability)	100	1	125	1	150	2	
292	FINAME/Promáquina FINA06	Loan (Liability)	100	1	125	1	150	2	
233	FINAME/Fabrima_Control Scale - Blister Stacker FINA14	Loan (Liability)	100	1	125	1	150	2	
145	FINAME/Fabrima_Tube Packaging Machine - Eye ointments FINA13	Loan (Liability)	100	1	125	1	150	2	
53	FINAME/Bauch Campos FINA07	Loan (Liability)	100	-	125	-	150	-	
<u>378,543</u>				<u>5,646</u>		<u>7,056</u>		<u>8,469</u>	

<b>Consolidated</b>									
<b>Exposure</b>	<b>Risk</b>	<b>Type</b>	<b>Effective rate on 12/31/2018</b>	<b>Probable</b>		<b>25% valuation</b>		<b>50% valuation</b>	
				<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	
213,646	Financial lease	Loan (Liability)	100	601	125	751	150	902	
52,658	R&D Finep	Loan (Liability)	100	180	125	225	150	270	
20,120	Project - Brasília Plant	Loan (Liability)	100	12	125	15	150	18	
7,419	Project - Research, Development and Innovation	Loan (Liability)	100	22	125	28	150	33	
6,819	Modernization Project - Subcredit A	Loan (Liability)	100	20	125	25	150	30	
6,519	Expansion of CD - Jaguariúna	Loan (Liability)	100	19	125	24	150	29	
2,052	Pró/DF	Loan (Liability)	100	133	125	167	150	200	
1,532	Modernization Project - Subcredit C	Loan (Liability)	100	58	125	73	150	87	
1,604	Modernization Project - Subcredit B	Loan (Liability)	100	4	125	5	150	6	
1,687	FINAME/Fabrima_Horizontal Cartoning Machine - Non-sterile ointments FINA12	Loan (Liability)	100	6	125	8	150	9	
1,198	FINAME/Fabrima_Horizontal Cartoning Machine - Eye Drops	Loan (Liability)	100	4	125	5	150	6	
857	FINA11 FINAME/Promáquina_Liquid	Loan (Liability)	100	1	125	1	150	2	
567	FINA09 FINAME/Promáquina_Eye Drops	Loan (Liability)	100	2	125	3	150	3	
386	FINA10 FINAME/Promáquina FINA06	Loan (Liability)	100	-	125	-	150	-	
372	FINAME/Fabrima_Control Scale - Blister Stacker FINA14	Loan (Liability)	100	1	125	1	150	2	
223	FINAME/Fabrima_Tube Packaging Machine - Eye ointments FINA13	Loan (Liability)	100	1	125	1	150	2	
70	FINAME/Bauch Campos FINA07	Loan (Liability)	100	-	125	-	150	-	
<b>317,729</b>				<b>1,064</b>		<b>1,332</b>		<b>1,599</b>	
<b>Exposure</b>	<b>Risk</b>	<b>Type</b>	<b>Effective rate on 12/31/2019</b>	<b>Probable</b>		<b>25% deterioration</b>		<b>50% deterioration</b>	
				<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	
193,012	Financial lease	Loan (Liability)	100	448	75	336	50	224	
103,605	Financial Lease	(Liabilities)	100	4,655	75	3,491	50	2,327	
40,707	R&D Finep	Loan (Liability)	100	132	75	99	50	66	
20,087	Project - Brasília Plant	Loan (Liability)	100	87	75	65	50	43	
7,441	Project - Research, Development and Innovation	Loan (Liability)	100	22	75	17	50	11	
6,131	Pró/DF	Loan (Liability)	100	276	75	207	50	138	
2,280	Modernization Project - Subcredit A	Loan (Liability)	100	7	75	5	50	3	
1,923	Expansion of CD - Jaguariúna	Loan (Liability)	100	6	75	4	50	3	
1,037	Project FINAME/Fabrima_Horizontal Cartoning Machine - Non-sterile ointments FINA12	Loan (Liability)	100	4	75	3	50	2	
721	FINAME/Fabrima_Horizontal Cartoning Machine - Eye Drops	Loan (Liability)	100	3	75	2	50	2	
535	FINA11 Modernization Project - Subcredit B	Loan (Liability)	100	2	75	2	50	1	
341	FINAME/Promáquina_Eye Drops FINA10	Loan (Liability)	100	1	75	1	50	1	
292	FINAME/Promáquina FINA06	Loan (Liability)	100	1	75	1	50	1	
233	FINAME/Fabrima_Control Scale - Blister Stacker FINA14	Loan (Liability)	100	1	75	1	50	1	
145	FINAME/Fabrima_Tube Packaging Machine - Eye ointments FINA13	Loan (Liability)	100	1	75	1	50	1	
53	FINAME/Bauch Campos FINA07	Loan (Liability)	100	-	75	-	50	-	
<b>378,543</b>				<b>5,646</b>		<b>4,235</b>		<b>2,824</b>	

Exposure	Risk	Type	Effective rate on 12/31/2018	Probable		25% deterioration		50% deterioration	
				Amount	%	Amount	%	Amount	%
213,64									
6	Financial lease	Loan (Liability)	100	601	75	451	50	301	
52,658	R&D Finep	Loan (Liability)	100	180	75	135	50	90	
20,120	Project - Brasília Plant	Loan (Liability)	100	12	75	9	50	6	
	Project - Research, Development and Innovation	Loan (Liability)	100	22	75	17	50	11	
7,419									
6,819	Modernization Project - Subcredit A	Loan (Liability)	100	20	75	15	50	10	
6,519	Expansion of CD - Jaguariúna Project	Loan (Liability)	100	19	75	14	50	10	
2,052	Pró/DF	Loan (Liability)	100	133	75	100	50	67	
1,532	Modernization Project - Subcredit C	Loan (Liability)	100	58	75	44	50	29	
1,604	Modernization Project - Subcredit B	Loan (Liability)	100	4	75	3	50	2	
	FINAME/Fabrima_Horizontal Cartoning Machine - Non-sterile ointments FINA12	Loan (Liability)	100	6	75	5	50	3	
1,198	FINAME/Fabrima_Horizontal Cartoning Machine - Eye Drops FINA11	Loan (Liability)	100	4	75	3	50	2	
857	FINAME/Promáquina_Liquid FINA09	Loan (Liability)	100	1	75	1	50	1	
	FINAME/Promáquina_Eye Drops FINA10	Loan (Liability)	100	2	75	2	50	1	
567									
386	FINAME/Promáquina FINA06	Loan (Liability)	100	-	75	-	50	-	
	FINAME/Fabrima_Control Scale - Blister Stacker FINA14	Loan (Liability)	100	1	75	1	50	1	
372									
	FINAME/Fabrima_Tube Packaging Machine - Eye ointments FINA13	Loan (Liability)	100	1	75	1	50	1	
223									
70	FINAME/Bauch Campos FINA07	Loan (Liability)	100	-	75	-	50	-	
317,729									
				<u>1,064</u>		<u>801</u>		<u>535</u>	

**(ii) Accounting classification and fair value measurement**

A number of the Group's accounting policies and disclosures require the measurement of fair value of financial and non-financial assets and liabilities.

The Group has established a control structure related to measuring fair value. The Management regularly reviews significant non-observable data and valuation adjustments.

If third-party information, such as broker quotes or pricing services, is used to measure fair value, the evaluation team analyzes the evidence obtained from third parties to support the conclusion that such evaluations meet the requirements of CPC, including level in the hierarchy of fair value at which such valuations are to be classified.

The Group uses observable market data, as much as it is possible, to measure the fair value of an asset or a liability.

Fair values are classified at different levels in a hierarchy based on inputs used in valuation techniques in the following way.

- **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 assets or liabilities, directly (prices) or indirectly (derived from prices).
- **Level 3:** significant premises for assets and liabilities that are not based on observable market data (non-observable inputs).



<b>Consolidated</b>							
<b>2019</b>	<b>Fair value</b>			<b>Total</b>	<b>Other categories</b>	<b>Fair value</b>	<b>Carrying amount</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>				
<b>Assets</b>							
Cash and cash equivalents	-	-	-	-	149,240	149,240	149,240
Trade receivables	-	-	-	-	749,005	749,005	749,005
Trade receivables from related parties	-	-	-	-	232,323	232,323	232,323
Loans receivable	-	-	-	-	316,093	316,093	316,093
Financial investment related to loan	-	-	-	-	4,124	4,124	4,124
Other receivables	-	-	-	-	69,336	69,336	69,336
	-	-	-	-	<u>(1,520,121)</u>	<u>(1,520,121)</u>	<u>(1,520,121)</u>
<b>Liabilities</b>							
Suppliers	-	-	-	-	(180,857)	(180,857)	(180,857)
Trade payables – related parties	-	-	-	-	(1,142,291)	(1,142,291)	(1,142,291)
Dividends payable	-	-	-	-	(122,289)	(122,289)	(122,289)
Loans and borrowings	-	-	-	-	(378,543)	(378,543)	(378,543)
Other trade payables	-	-	-	-	(136,723)	(136,723)	(136,723)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b><u>(1,960,703)</u></b>	<b><u>(1,960,703)</u></b>	<b><u>(1,960,703)</u></b>

<b>Consolidated</b>							
<b>2018</b>	<b>Fair value</b>			<b>Total</b>	<b>Other categories</b>	<b>Fair value</b>	<b>Carrying amount</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>				
<b>Assets</b>							
Cash and cash equivalents	-	-	-	-	252,346	252,346	252,346
Trade receivables	-	-	-	-	519,863	519,863	519,863
Trade receivables from related parties	-	-	-	-	150,511	150,511	150,511
Loans receivable	-	-	-	-	227,961	227,961	227,961
Financial investment related to loan	-	-	-	-	3,635	3,635	3,635
Other receivables	-	-	-	-	266,283	266,283	266,283
	-	-	-	-	<u>1,420,599</u>	<u>1,420,599</u>	<u>1,420,599</u>
<b>Liabilities</b>							
Suppliers	-	-	-	-	248,951	248,951	248,951
Trade payables – related parties	-	-	-	-	902,738	902,738	902,738
Dividends payable	-	-	-	-	95,299	95,299	95,299
Loans and borrowings	-	-	-	-	317,729	317,729	317,729
Other trade payables	-	-	-	-	148,800	148,800	148,800
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b><u>1,713,517</u></b>	<b><u>1,713,520</u></b>	<b><u>1,713,520</u></b>

The Company used the following methods and assumptions to estimate the disclosure of fair value of its financial instruments as of December 31, 2019 and 2018:

- **Cash and cash equivalents and financial investment related to loan:** are presented at their market value, which is equal to their carrying amount.
- **Trade receivables and related parties:** derive directly from the Group's transactions and from its customers and are classified as cost (sic). They are recorded at their original values and are subject to provision for impairment losses. The original amounts net of provision are similar to the fair values on the closing date of financial statements.
- **Loans receivable from related parties:** are classified as loans and receivables and are recorded at their contractual amounts.
- **Loans and borrowings:** are classified as other financial liabilities and are recorded at their contractual amounts.

- **Trade payables and suppliers - related parties:** derive directly from purchase operations of goods of the Group with its suppliers and are classified as other financial liabilities. They are registered at their original values which are similar to the fair values on the closing date of financial statements.
- **Other trade receivables and other trade payables:** are presented at the original value which are similar to the fair value in on the date of closing of the financial statements.

## 11 Cash and cash equivalents

	Parent		Consolidated	
	2019	2018	2019	2018
Bank	13,627	14,565	21,774	22,921
Financial investments	57,902	114,120	127,466	229,425
	<u>71,529</u>	<u>128,685</u>	<u>149,240</u>	<u>252,346</u>

Short-term investments are highly liquid, readily convertible into a known amount of cash and are subject to an insignificant risk of change in value, with domestic financial institutions as counterparties and yield rates linked to the CDI.

## 12 Financial investment related to loan

	Parent		Consolidated	
	2019	2018	2019	2018
Financial investment related to loan	4,124	3,635	4,124	3,635
	<u>4,124</u>	<u>3,635</u>	<u>4,124</u>	<u>3,635</u>

The long-term financial investment in the amount of R\$4,124 (R\$3,635 in 2018) effected at Banco de Brasília, guarantees the ICMS financing granted to the Company as a government subsidy (Note 8.g). The amount may only be used for full settlement of the final installments of financing.

## 13 Trade receivables

	Parent		Consolidated	
	2019	2018	2019	2018
Trade receivables	578,954	386,776	773,303	550,180
Less: provision for impairment	(3,169)	(3,972)	(24,298)	(30,317)
	<u>575,785</u>	<u>382,804</u>	<u>749,005</u>	<u>519,863</u>

As of December 31, 2019 and 2018, the following trade receivables were outstanding:

	Parent		Consolidated	
	2019	2018	2019	2018
To become overdue	524,385	348,497	642,043	423,447
Overdue less than three months	51,910	35,988	81,745	59,238
Three to six months overdue	2,279	737	32,010	26,776
Overdue for more than six months	380	1,554	17,505	40,719
	<u>578,954</u>	<u>386,776</u>	<u>773,303</u>	<u>550,180</u>

Balances of trade receivables from customers are recorded by the net amount, and they do not bear interest. Trade receivables are deducted, by means of a provision, to the probable amounts of realization. The provision for impairment loss was constituted in an amount considered sufficient by the Management, covering possible losses with credits realization.

The activities of provision for impairment losses are presented below:

	Parent		Consolidated	
	2019	2018	2019	2018
As of January 1	(3,972)	(23,270)	(30,317)	(30,462)
Credits provisioned in the period	(2,960)	(2,936)	(3,948)	(22,104)
Credits reversed in the period	3,763	22,234	9,967	22,249
As of December 31	<u>(3,169)</u>	<u>(3,972)</u>	<u>(24,298)</u>	<u>(30,317)</u>

Trade receivables, net of impairment losses, are denominated in the following currencies:

	Parent		Consolidated	
	2019	2018	2019	2018
Reais	572,574	380,119	745,426	517,178
US Dollars	3,211	2,685	3,579	2,685
	<u>575,785</u>	<u>382,804</u>	<u>749,005</u>	<u>519,863</u>

## 14 Inventories

	Parent		Consolidated	
	2019	2018	2019	2018
Raw material	218,924	128,732	222,673	167,416
Finished products	270,188	115,980	325,994	123,728
Products in progress	47,333	43,389	47,322	45,475
Packaging material and others	44,847	28,492	48,610	30,169
Advance to third-party suppliers	32,923	30,399	34,403	30,765
Imports in progress	8,504	7,824	8,038	8,410
Provision for obsolescence	(31,172)	(16,984)	(34,042)	(19,029)
	<u>591,547</u>	<u>337,832</u>	<u>652,998</u>	<u>386,934</u>
	Parent		Consolidated	
	2019	2018	2019	2018
Balance as of January 1	(16,984)	(28,843)	(19,029)	(31,070)
Constitution	(27,790)	(13,056)	(30,039)	(14,697)
Reversal	<u>13,602</u>	<u>24,915</u>	<u>15,026</u>	<u>26,738</u>
Balance as of December 31	(31,172)	(16,984)	(34,042)	(19,029)

The criteria used to establish the provision for obsolescence is detailed in note 8.m.

## 15 Recoverable taxes

	Parent		Consolidated	
	2019	2018	2019	2018
IRPJ (Corporate Income Tax) and CSLL (Social Contribution on Net Income) (*)	86,937	85,986	94,147	93,212
PIS (Social Integration Program) and COFINS (Social Contribution on Billings) - (**)	7,411	19,740	62,089	49,558
ICMS (State Value-Added Tax on Goods and Services) (***)	43,021	12,096	106,255	49,912
IOF (Tax on Financial Transactions)	11,235	9,259	11,235	9,259
Excise Tax - IPI	4,244	5,076	32,179	8,035
Other	24,851	10,486	22,056	13,399
	<u>177,699</u>	<u>142,643</u>	<u>327,961</u>	<u>223,375</u>
Current	<b>170,996</b>	<b>135,940</b>	<b>321,258</b>	<b>216,672</b>
Non-current	<u>6,703</u>	<u>6,703</u>	<u>6,703</u>	<u>6,703</u>
	<u>177,699</u>	<u>142,643</u>	<u>327,961</u>	<u>223,375</u>

(\*) Refers to the advance of income tax and social security contribution from previous fiscal years.

(\*\*) Refers to PIS and COFINS credits on input acquisition.

(\*\*\*) ICMS (State Value-Added Tax on Goods and Services) Credits on acquisitions of fixed assets.

## 16 Other receivables



	Parent		Consolidated	
	2019	2018	2019	2018
Claim Indemnity (*)	586	200,395	804	200,395
Advances to suppliers - third parties	16,447	60,333	28,208	37,851
Advances to related parties	17,853	1,804	9,973	1,804
Advances to employees	11,829	17,263	12,836	18,227
Leases - IFRS 16	5,900	-	5,900	-
Other	6,233	6,273	11,615	8,006
	<u>58,848</u>	<u>286,068</u>	<u>69,336</u>	<u>266,283</u>
Current	53,852	281,072	63,466	261,287
Non-current	4,996	4,996	5,870	4,996
	<u>58,848</u>	<u>286,068</u>	<u>69,336</u>	<u>266,283</u>

(\*) In 2018, an estimated amount of indemnifiable losses was record to the Company, according to conditions and contractual clauses of insurance policy due to claim occurred as of October 20, 2018 due to the fire in the Company's premises in the city of Hortolândia, State of São Paulo. This balance is substantially comprised of the costs of inventories and fixed assets affected by the fire on that date. The consideration for this amount was recognized in the profit or loss' fiscal year under the "Other operating income (expenses)" line item as shown in note 28. In 2019, there was the reimbursement by the insurance company, in which, this amount was record under the cash and equivalents line item and absorbed by the company's transaction.

## 17 Investments in subsidiaries

### Parent

	December 31, 2019						
	EMS Sigma	Legrand Luxbiotech	CPM	Montereseach	Biopharmaceuticals	Rio	Total investment
<b>Investments</b>							
Number of representative shares/quotas of the share capital	7,662,451	136,464	58,636,851	64,205,000	90,000	-	-
Share capital	7,740	138	97,723	64,605	406	3,308	-
Profit (loss) for the fiscal year	2,402	93,207	(44,849)	41,084	(34,594)	-	-
Interest on share capital - %	99.00%	99.00%	99.65%	99.38%	100%	100%	-
Equity of subsidiary	8,155	108,624	26,915	70,704	70,507	1,085	-
Opening balance of investments as of January 1, 2019	5,699	15,263	3,792	82,030	56,637	9,589	173,010
Appropriation of dividends receivable	-	-	-	(17,343)	-	-	(17,343)
Increase of share capital (*)	-	-	67,947	-	651	4,981	73,579
Foreign operation in conversion	-	-	-	-	4,318	-	4,318
Other activities	(1)	-	-	-	156	-	155
Equity accounting income	2,378	92,275	(44,881)	5,473	8,743	-	63,988
	<u>8,076</u>	<u>107,538</u>	<u>26,858</u>	<u>70,160</u>	<u>70,505</u>	<u>14,570</u>	<u>297,707</u>

December 31, 2018							
	EMS Sigma	Legrand	Luxbiotech	CPM	Montereseach	Rio Biopharmaceuticals	Total investment
<b>Investments</b>							
Number of shares/quotas of share capital	7,662,451	136,464	29,571,851	64,205,000	90,000	-	-
Share capital	7,740	138	29,778	64,605	399	3,308	-
Profit (loss) for the fiscal year	(2,217)	63,901	(37,033)	18,243	21,464	-	-
Interest on share capital - %	99.00%	99.00%	99.31%	99.38%	100%	100%	-
Equity of subsidiary	5,756	15,417	3,819	82,541	56,676	1,085	-
Initial investment balance as of January 1, 2018	13,833	191,064	61,693	63,899	27,685	970	359,144
Appropriation of dividends receivable	(6,000)	(239,064)	(21,248)	-	-	-	(266,311)
Increase of share capital	-	-	-	-	3,604	8,620	12,224
Foreign operation in conversion	-	-	-	-	3,806	-	3,806
Other activities	-	-	-	-	79	-	79
Equity accounting income	(2,134)	63,261	(36,653)	18,130	21,464	-	64,068
	<u>5,699</u>	<u>15,261</u>	<u>3,792</u>	<u>82,029</u>	<u>56,638</u>	<u>9,590</u>	<u>173,010</u>

(\*) In 2019, EMS made a capital contribution to the investee Luxbiotech in the amount of R\$67,947, of which R\$38,880 through payment of advances made during 2019 and R\$29,067 through payment of advances made in 2018. The following is a conciliation of the ownership interest increase in subsidiaries to the statement of cash flows in the investing activity:

	Luxbiotech	Montereseach	Rio Biopharmaceuticals	Total
Capital contribution	38,880	651	4,981	44,512
Payment of advances made in 2018 (no "cash" effect in 2019)	<u>29,067</u>	<u>-</u>	<u>-</u>	<u>29,067</u>
<b>Total</b>	<b><u>67,947</u></b>	<b><u>651</u></b>	<b><u>4,981</u></b>	<b><u>73,579</u></b>

**a. Summary of financial information**

The table below presents a summary of all financial information of subsidiaries:

**(i) Synthetic statements of financial position of subsidiaries**

	EMS Sigma		Legrand		Luxbiotech		Montereseach		Rio Bio Pharmaceuticals		CPM	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
<b>Current</b>												
Assets	249,129	20,758	290,812	304,997	48,360	45,547	7,275	7,404	1,167	1,167	86,143	79,629
Liabilities	(240,149)	(14,291)	(185,258)	(288,529)	(16,074)	(35,685)	(5,036)	(5,659)	(82)	(82)	(15,347)	(13,481)
<b>Net current assets</b>	<b><u>8,980</u></b>	<b><u>6,467</u></b>	<b><u>105,554</u></b>	<b><u>16,468</u></b>	<b><u>32,286</u></b>	<b><u>9,862</u></b>	<b><u>2,239</u></b>	<b><u>1,745</u></b>	<b><u>1,085</u></b>	<b><u>1,085</u></b>	<b><u>70,796</u></b>	<b><u>66,148</u></b>
<b>Non-current</b>												
Non-current assets	4,484	3,420	13,850	7,694	2,906	560	68,268	54,931	-	-	940	16,636
Non-current liabilities	(5,309)	(4,131)	(10,780)	(8,745)	(8,277)	(6,604)	-	-	-	-	(1,031)	(243)
<b>Non-current assets, net</b>	<b><u>(825)</u></b>	<b><u>(711)</u></b>	<b><u>3,070</u></b>	<b><u>(1,051)</u></b>	<b><u>(5,371)</u></b>	<b><u>(6,044)</u></b>	<b><u>68,268</u></b>	<b><u>54,931</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>(91)</u></b>	<b><u>16,393</u></b>
<b>Equity</b>	<b><u>8,155</u></b>	<b><u>5,756</u></b>	<b><u>108,624</u></b>	<b><u>15,417</u></b>	<b><u>26,915</u></b>	<b><u>3,818</u></b>	<b><u>70,507</u></b>	<b><u>56,676</u></b>	<b><u>1,085</u></b>	<b><u>1,085</u></b>	<b><u>70,705</u></b>	<b><u>82,541</u></b>

(ii) *Synthetic statements of profit or loss of subsidiaries*

	<u>EMS Sigma</u>		<u>Legrand</u>		<u>Luxbiotech</u>		<u>Montresearch</u>		<u>CPM</u>		<u>Riobiopharmaceuticals</u>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>Profit or loss</b>												
Revenues	165,833	14,615	437,092	438,800	9,362	4,607	9,855	9,343	83,772	83,993	-	-
Income before income tax and social security contribution												
Income tax and social security contribution expenses	3,413	(2,389)	137,756	95,847	(45,682)	(37,033)	(34,594)	21,464	85,978	19,386	-	-
	<u>(871)</u>	<u>172</u>	<u>(47,153)</u>	<u>(31,946)</u>	<u>27</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(45,526)</u>	<u>(1,143)</u>	<u>-</u>	<u>-</u>
Net profit (loss) for the fiscal year	<b><u>2,542</u></b>	<b><u>(2,217)</u></b>	<b><u>90,603</u></b>	<b><u>63,901</u></b>	<b><u>(45,655)</u></b>	<b><u>(37,033)</u></b>	<b><u>(34,594)</u></b>	<b><u>21,464</u></b>	<b><u>40,452</u></b>	<b><u>18,243</u></b>	<b><u>-</u></b>	<b><u>-</u></b>

## 18 Fixed assets

	<b>Parent</b>						
	<b>Land and buildings</b>	<b>Vehicles and machinery</b>	<b>Furniture, fixtures and equipment</b>	<b>Other</b>	<b>Construction works in progress (*)</b>	<b>Aircraft</b>	<b>Total</b>
<b>As of December 31, 2019</b>							
Opening balance	133,751	169,276	17,568	-	96,208	219,104	635,907
Acquisitions	9,967	23,138	4,952	-	33,618	-	71,675
Write-offs	(3,837)	(11,563)	(1,633)	-	(4,142)	-	(21,175)
Depreciation (write-offs)	1,755	7,259	966	-	-	-	9,980
Transfers	25,232	44,325	1,555	-	(71,257)	-	(145)
Depreciation	(2,617)	(3,926)	(493)	-	-	(11,915)	(18,951)
Accounting balance, net	<u>164,251</u>	<u>228,509</u>	<u>22,915</u>	<u>-</u>	<u>54,427</u>	<u>207,189</u>	<u>677,291</u>
<b>As of December 31, 2019</b>							
Cost	220,658	379,343	45,159	733	54,427	231,715	932,035
Accumulated depreciation	(56,407)	(150,834)	(22,245)	(733)	-	(24,526)	(254,744)
	<u>164,251</u>	<u>228,509</u>	<u>22,914</u>	<u>-</u>	<u>54,427</u>	<u>207,189</u>	<u>677,291</u>
	<b>Parent Company (Lease)</b>						
	<b>Land and buildings</b>	<b>Vehicles and machinery</b>	<b>Furniture, fixtures and equipment</b>	<b>Other</b>	<b>Construction works in progress (*)</b>	<b>Aircraft</b>	<b>Total</b>
<b>Right-of-use assets - lease</b>							
Initial adoption on January 1, 2019 - CPC 06/IFRS 16	62,732	35,980	105	-	-	-	98,817
Acquisitions	5,381	5,109	4	-	-	-	10,494
Depreciation	(6,221)	(18,924)	(50)	-	-	-	(25,195)
Accounting balance, net	<u>61,892</u>	<u>22,165</u>	<u>59</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>84,116</u>
<b>As of December 31, 2019</b>							
Cost	68,113	41,089	109	-	-	-	109,311
Accumulated depreciation	(6,221)	(18,924)	(50)	-	-	-	(25,195)
	<u>61,892</u>	<u>22,165</u>	<u>59</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>84,116</u>
	<b>Parent Company (Total Assets and Lease)</b>						
	<b>Land and buildings</b>	<b>Vehicles and machinery</b>	<b>Furniture, fixtures and equipment</b>	<b>Other</b>	<b>Construction works in progress (*)</b>	<b>Aircraft</b>	<b>Total</b>
<b>Accounting balance, net (Assets and Lease)</b>							
<b>As of December 31, 2019</b>							
Cost	288,771	420,432	45,268	733	54,428	231,715	1,041,347
Accumulated depreciation	(62,628)	(169,758)	(22,295)	(733)	-	(24,526)	(279,940)
	<u>226,143</u>	<u>250,674</u>	<u>22,973</u>	<u>-</u>	<u>54,428</u>	<u>207,189</u>	<u>761,407</u>

<b>Parent</b>							
	<b>Land and buildings</b>	<b>Vehicles and machinery</b>	<b>Furniture, fixtures and equipment</b>	<b>Other</b>	<b>Construction works in progress (*)</b>	<b>Aircraft</b>	<b>Total</b>
<b>As of December 31, 2018</b>							
Opening balance	142,711	179,315	18,168	-	37,543	35,947	413,684
Acquisitions	295	6,980	3,057	-	74,494	212,904	297,730
Disposals	-	(209)	(47)	-	(10,420)	(30,919)	(41,595)
Depreciation (write-offs)	-	184	168	-	-	14,944	15,297
Transfers	504	4,434	470	-	(5,408)	-	-
Depreciation	(9,759)	(21,428)	(4,249)	-	-	(13,772)	(49,209)
Accounting balance, net	<u>133,751</u>	<u>169,276</u>	<u>17,567</u>	<u>-</u>	<u>96,208</u>	<u>219,104</u>	<u>635,907</u>
<b>As of December 31, 2018</b>							
Cost	189,296	323,443	40,285	733	96,208	231,715	881,680
Accumulated depreciation	(55,545)	(154,167)	(22,718)	(733)	-	(12,611)	(245,773)
	<u>133,751</u>	<u>169,276</u>	<u>17,567</u>	<u>-</u>	<u>96,208</u>	<u>219,104</u>	<u>635,907</u>
<b>Consolidated</b>							
	<b>Land and buildings</b>	<b>Vehicles and machinery</b>	<b>Furniture, fixtures and equipment</b>	<b>Other</b>	<b>Construction works in progress (*)</b>	<b>Aircraft</b>	<b>Total</b>
<b>Consolidated</b>							
<b>As of December 31, 2019</b>							
Opening balance	137,608	168,717	17,158	-	95,810	219,104	638,397
Acquisitions	9,967	23,570	5,399	-	33,618	-	72,554
Write-offs	(3,837)	(11,605)	(1,656)	-	(4,142)	-	(21,240)
Transfers	25,234	44,325	1,555	-	(71,256)	-	(142)
Depreciation (write-offs)	1,755	7,281	966	-	-	-	10,002
Depreciation	(2,714)	(5,114)	(757)	-	-	(11,915)	(20,500)
	<u>168,013</u>	<u>227,174</u>	<u>22,665</u>	<u>-</u>	<u>54,030</u>	<u>207,189</u>	<u>679,071</u>
<b>As of December 31, 2019</b>							
Cost	225,526	384,238	47,331	733	54,030	231,715	943,573
Accumulated depreciation	(57,513)	(157,064)	(24,666)	(733)	-	(24,526)	(264,502)
Accounting balance, net	<u>168,013</u>	<u>227,174</u>	<u>22,665</u>	<u>-</u>	<u>54,030</u>	<u>207,189</u>	<u>679,071</u>
<b>Consolidated (Lease)</b>							
	<b>Land and buildings</b>	<b>Vehicles and machinery</b>	<b>Furniture, fixtures and equipment</b>	<b>Other</b>	<b>Construction works in progress (*)</b>	<b>Aircraft</b>	<b>Total</b>
<b>Right-of-use assets - lease</b>							
Initial adoption on January 1, 2019 - CPC 06/IFRS 16	66,966	39,895	257	-	-	-	107,118
Acquisitions	-	6,650	874	-	-	-	7,524
Addition due to inflation adjustment	5,733	-	4	-	-	-	5,737
Depreciation	(6,622)	(21,121)	(373)	-	-	-	(28,116)
Accounting balance, net	<u>66,077</u>	<u>25,424</u>	<u>762</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>92,263</u>
<b>As of December 31, 2019</b>							
Cost	72,699	46,545	1,135	-	-	-	120,379
Accumulated depreciation	(6,622)	(21,121)	(373)	-	-	-	(28,116)
	<u>66,077</u>	<u>25,424</u>	<u>762</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>92,263</u>

<b>Parent Company (Total Assets and Lease)</b>							
	<b>Land and buildings</b>	<b>Vehicles and machinery</b>	<b>Furniture, fixtures and equipment</b>	<b>Other</b>	<b>Construction works in progress (*)</b>	<b>Aircraft</b>	<b>Total</b>
<b>Accounting balance, net (assets and lease)</b>							
<b>As of December 31, 2019</b>							
Cost	274,746	393,739	47,877	733	125,286	231,715	1,074,096
Accumulated depreciation	(40,656)	(141,141)	(24,450)	(733)	(71,256)	(24,526)	(302,762)
	<u>234,090</u>	<u>252,598</u>	<u>23,427</u>	<u>-</u>	<u>54,030</u>	<u>207,189</u>	<u>771,334</u>
<b>Consolidated</b>							
<b>As of December 31, 2018</b>							
Opening balance	144,291	180,112	18,494	-	37,312	35,947	416,156
Acquisitions	3,011	7,089	3,063	-	74,494	212,904	300,561
Write-offs	(41)	(209)	(50)	-	(10,420)	(30,919)	(41,639)
Transfers	792	4,379	405	-	(5,576)	-	-
Depreciation (write-offs)	0	184	169	-	-	14,944	15,297
Depreciation	(10,445)	(22,838)	(4,923)	-	-	(13,772)	(51,978)
	<u>137,608</u>	<u>168,717</u>	<u>17,158</u>	<u>-</u>	<u>95,810</u>	<u>219,104</u>	<u>(638,397)</u>
<b>As of December 31, 2018</b>							
Cost	194,162	327,948	42,033	733	95,810	231,715	892,401
Accumulated depreciation	(56,554)	(159,231)	(24,875)	(733)	-	(12,611)	(254,004)
Accounting balance, net	<u>137,608</u>	<u>168,717</u>	<u>17,158</u>	<u>-</u>	<u>95,810</u>	<u>219,104</u>	<u>638,397</u>

(\*) Construction works in progress refer to investments to expand production lines.

Bank loans are guaranteed by fixed assets in the amount of R\$25,821 (R\$30,732 in 2018).

## 19 Suppliers

	<b>Parent</b>		<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Foreign suppliers	55,662	122,618	58,258	123,625
Suppliers - domestic	69,351	85,298	70,390	87,437
Service providers	47,304	30,554	52,209	37,889
	<u>172,317</u>	<u>238,470</u>	<u>180,857</u>	<u>248,951</u>

## 20 Loans and borrowings

	Interest Rate	Maturity	Parent		Consolidated	
			2019	2018	2019	2018
Financial lease (a)	1.21% p.a to 3.23% p.a. and Libor + 0.35% p.a.	February 2020 and May 2023	192,958	213,539	193,012	213,646
FINEP (b)	(b)	April 2023	40,707	52,767	40,707	52,767
BNDES (c)	(c)	March 2020 to March 2026	32,266	43,903	32,266	43,903
FINAME	1.21% p.a to 3.23% p.a. and Libor + 0.35% p.a.	June 2020 to February 2023	2,822	5,361	2,822	5,361
Banco Regional de Brasília - ICMS financing (d)	25% do INPC (National Consumer Price Index) (i)	December 2031 December 2020 to December 2030	6,131	2,052	6,131	2,052
Financial Lease (e)	9.98% p.a.		<u>95,139</u>	<u>-</u>	<u>103,605</u>	<u>-</u>
			<u>370,023</u>	<u>317,622</u>	<u>378,543</u>	<u>317,729</u>
Current			84,712	53,123	88,189	53,123
Non-Current			<u>285,311</u>	<u>264,499</u>	<u>290,354</u>	<u>264,606</u>
			<u>370,023</u>	<u>317,622</u>	<u>378,543</u>	<u>317,729</u>

(i) Annual effective rate.

(ii) Long-Term Interest Rate (TJLP).

(a) The Financial Lease amount is composed of: JP Morgan: refers to the purchase of an aircraft. Currently, the outstanding balance is of R\$188,616. Helicopter lease with Bladex with an outstanding balance of R\$4,015. Ipad Lease with Santander bank R\$115 and notebook lease with Safra bank R\$212.

(b) Refers to the partial costing of expenses incurred in preparing and executing the Innovation Strategic Plan approved and made available by FINEP, in accordance with the Disbursement Schedule. Compound interest of TJLP plus 5% per year as spread shall accrue on principal amount of debt, reduced by equivalent equalization of 3% per year.

(c) The balance refers to loans obtained with BNDES as shown below:

(i) Release of the value of the Financing agreement entered with BNDES in 2018 to improve the Brasília plant. Currently, the outstanding balance is of R\$20,087.

(ii) R&D contract with credit contracted in the amount of R\$75,712 that will be released in subcredits as accounts are presented. The outstanding amount is R\$7,441 with TJLP + 1.75% and 2.25% p.a. and with final payment on 03/15/2026.

(iii) Release of part of the amount of financing agreement entered into with BNDES on May 14, 2015, for the expansion of the Logistic Distribution Center located in the city of Jaguariúna/SP. BNDES granted a loan of R\$19,141, which will be made available in installments, in accordance with the Company's need and the availability of BNDES funds, after compliance with the conditions established for credit release, including proof of use of the resources previously released. The principal of the debt will bear interest of 1.79% p.a. above the TJLP (TJLP + 1.79% p.a.), with interest required quarterly as of October 15, 2015, and monthly as of November 15, 2016, when the principal also becomes due. The debt balance will be settled in monthly installments due up to May 15, 2020. Currently, the outstanding balance is of R\$1,923.

(iv) Financing granted by Banco Nacional de Desenvolvimento Econômico e Social - BNDES, up to the amount of R\$55,682, divided into three subcredits:

(a) Subcredit "A" - in the amount of R\$21,664 for the transfer and modernization of the penicillin line from São Bernardo do Campo plant to a production unit in Jaguariúna, state of São Paulo, and modernization of the Hortolândia plant, state of São Paulo, under the BNDES Program of Support to Development of Industrial Health Complex - BNDES Profarma, Production Subprogram. Currently, the outstanding balance is of R\$2,280.

(b) Subcredit "B" - R\$4,960 for the acquisition of national equipment for execution of the project mentioned in subcredit "A", under the BNDES Program of Support to Development of Industrial Health Complex - BNDES Profarma, Production Subprogram. Currently, the outstanding balance is of R\$535.

(c) Subcredit "C" - R\$29,058 for the acquisition of imported equipment for execution of the project mentioned in subcredit "A", under the BNDES Program of Support to Development of Industrial Health Complex - BNDES Profarma, Production Subprogram. Currently, the outstanding balance is of R\$1,531.

Credit will be made available to the beneficiaries in installments, once the conditions of release have been fulfilled.

The total subcredits must be used within a period of up to 12 months from the date of signature of the contract.

There shall accrue, on the principal of debt: (i) interest of 1.59% p.a. above the TJLP (TJLP + 1.59% p.a.) for Subcredit "A"; (ii) interest of 6% p.a. for subcredit "B"; and (iii) interest of 3.59% p.a. above TR (Reference Rate) (TR + 3.59% p.a.) for Subcredit "C".

EMS S.A. gave BNDES the fiduciary property of machinery and equipment to be acquired with funds from this operation and bank guarantee as collateral.

- (d) Banco Regional de Brasília - refers to the granting of credit benefit granted in favor of the Company within the scope of Federal District's Integrated and Sustainable Economic Development Promotion Program (PRÓ-DF) in the amount of up to R\$458,638 (original amount).

Each installment corresponds to the equivalent of 70% of tax credit constituted by levy of ICMS related to services rendered in Interstate and Intercity Transportation and Communication generated by imports of organic chemicals and raw materials, among others, carried out by EMS S.A. unit located in the Federal District.

The financing takes place through the BRB and has a grace period of 300 months (25 years) of the date of each installment released, according to Ordinance No. 182, dated May 19, 2009 - Published in DODF (Official Gazette of Federal District) No. 097, of May 21, 2009.

Charges corresponding to 25% of the National Consumer Price Index (INPC) are levied on the amounts, and the charges calculated from January to December of each year are required in January of the subsequent year.

The financing is guaranteed by the investments in CDBs issued by BRB made by the Company, which are remunerated by 97% of CDI rate variation, equivalent to 10% of the amount of each credit installment released, which can only be used for final settlement of installments, the amount of respective financial investment was R\$4,124 as of December 31, 2018 (R\$3,635 as of December 31, 2018).

It is understood that the credit benefit may be canceled, and the creditor (Banco BRB) is guaranteed the right to declare the credit instrument in arrears, making the total debt immediately due, in the following cases: (i) if the Company fails to comply with the contractual obligations and with PRÓ/DF legislation; (ii) if it is in irregular situation before the tax register of the federal revenue office and the federal revenue office of Federal District; (iii) if it uses the real estate property destined to implementation of productive development project for residential purposes; and (iv) closing of activities of the development object of the incentive.

The economic benefit (government subsidy), calculated considering the difference between the market rate of the date of financing release and the interest rates obtained (BM&F pre-established curve (PRE x DI)), is recognized as deferred income and recorded in profit or loss on a straight-line basis according to the maturity of each release. As of December 31, 2019, deferred income recognized by the Company was R\$19,032 (R\$19,032 as of December 31, 2018).

As of March 31, 2014, the Company participated in the public session of BRB/FUNDEFE No. 001/2014 auction for early settlement of the financing with funds from FUNDEFE/PRÓ-DF II. On the same date, lots 20, 21, 22, 23, 24, 25, 26, 27, 28, 29 and 30 of the auction related to CCC 2001.000030-0/01-9 were settled for R\$16,587. The remaining balance refers to installments of 2013 not yet released by PRÓ-DF program.

In 2014 PRÓ-DF program was replaced by a new program instituted by the Federal District pursuant to Law 5017 of January 18, 2013 (IDEAS - Incentive for Economic, Environmental and Social Development).

During fiscal year 2019, the Company did not effect any activity to recognize the subsidy grant and received R\$4,079 related to the ICMS.

Loans and borrowings agreements have non-financial covenants that were fully met at the end of fiscal year.

The maturities of loans and borrowings recorded in current and non-current liabilities as of December 31, 2019 and 2018 are as follows:

	<b>2019</b>	<b>2018</b>
2019	-	53,123
2020	50,207	69,507
2021	43,685	63,581
2022	42,511	31,539
2023 onwards	<u>138,481</u>	<u>99,872</u>
	<u><u>274,884</u></u>	<u><u>317,622</u></u>

- (e) As of January 1, 2019, the Group applied CPC 06 (R2), which introduces a single lease model, replacing the concept of classification between operating and financial lease. The main objective is to define whether there is a lease in the contracts or whether the contract is a service provision. After such definition, if a contract contains a lease, it should be recorded in assets, depreciated and in liabilities with allocation of financial charges. Recognition of financial lease liabilities on the date of initial application for leases previously classified as operating leases. Financial lease liabilities were measured at present value of the remaining lease payments, discounted based on incremental loan interest rates, combined by nature of asset, region and contractual term.

	<b>Parent</b>		<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Financial Lease	<u>95,139</u>	-	<u>103,605</u>	-
	<u><u>95,139</u></u>	<u><u>-</u></u>	<u><u>103,605</u></u>	<u><u>-</u></u>
Current	34,505	-	37,982	-
Non-current	<u>60,634</u>	-	<u>65,623</u>	-
	<u><u>95,139</u></u>	<u><u>-</u></u>	<u><u>103,605</u></u>	<u><u>-</u></u>



Below are the activities in the financial lease balance for the fiscal year ended December 31, 2019:

	<b>Parent</b>	<b>Consolidated</b>
	<b>2019</b>	<b>2019</b>
Initial adoption	110,240	118,541
New contracts	5,109	7,524
Adjustment	5,157	6,007
Payment	(36,240)	(40,217)
Interest	10,873	11,750
	<u>95,139</u>	<u>103,605</u>
Balance as of December 31, 2019	<u>95,139</u>	<u>103,605</u>

The balance maturities of the non-current leases are as follows:

	<b>2019</b>
2020	34,505
2021	10,193
2022	10,182
2023 onwards	40,259
	<u>95,139</u>

### Reconciliation between financial position activity and cash flow from financing activities

	<b>Parent</b>			<b>Consolidated</b>		
Note	Loan Short and Long- Term Loan Long-term	Dividends Proposed Dividends	Total	Loan Short and Long- Term Loan Long-term	Dividends Proposed Dividends	Total
	<b>2019</b>			<b>2018</b>		
Balance at the beginning of the fiscal year	317,621	90,170	407,791	145,918	91,723	237,641
Cash flow items from financing activities:	-	-	-	-	-	-
Loan raising	-	-	-	230,477	-	230,477
Amortization of loans	(54,468)	-	(54,468)	(62,297)	-	(62,297)
Dividends Paid	-	(90,750)	(90,750)	-	(300,745)	(300,745)
25.d Total cash flow used in financing activity	(54,468)	(90,750)	(145,218)	168,180	(300,745)	(132,565)
Other items:						
Expenses with interest and exchange variation	19,816	-	19,816	26,150	-	26,150
Payment of interest and exchange variation	(8,085)	-	(8,085)	(22,627)	-	(22,627)
Provisioned Dividends	-	115,377	115,377	-	299,192	299,192
25.d Total of other items	11,731	115,377	127,108	3,523	299,192	302,715
Balance as of December 31 of this fiscal year	<u>274,884</u>	<u>114,797</u>	<u>389,681</u>	<u>317,621</u>	<u>90,170</u>	<u>407,791</u>

**Consolidated**

Note	Loan Short and Long-Term Loan	Dividends Proposed Dividends	Total	Loan Short and Long-Term Loan	Dividends Proposed Dividends	Total
	Long-term			Long-term		
2019			2018			
Balance as of December 31 of the previous year	317,729	95,299	413,028	146,056	94,289	240,345
Cash flow items from financing activities:	-	-	-	-	-	-
Loan raising	-	-	-	230,477	-	230,477
Amortization of loans	(54,518)	-	(54,518)	(62,327)	-	(62,297)
Dividends Paid	25.d -	(90,750)	(90,750)	-	(300,745)	(300,745)
Total cash flow used in financing activity	(54,518)	(90,750)	(145,268)	168,150	(300,745)	(132,595)
Other items:						
Expenses with interest and exchange variation	19,812	-	19,812	26,150	-	26,150
Payment of interest and exchange variation	(8,085)	-	(8,085)	(22,627)	-	(22,627)
Provisioned Dividends	25.d -	115,377	115,377	-	301,755	301,755
Total of other items	11,727	115,377	127,104	3,523	301,755	305,278
Balance as of December 31 of this fiscal year	274,938	119,926	394,864	317,729	95,299	413,028

## 21 Provision for losses in legal proceedings and legal deposits

The Group is part in court and administrative proceedings before several courts and governmental bodies, resulting from ordinary course of business, involving tax, labor, civil and other issues.

Based on information from its legal consultants, analysis of pending litigations and, as to labor suits, based on previous experience referring to claimed amounts, the Management has constituted provisions in amounts deemed sufficient to cover the loss expected with ongoing litigations, as follows:

### a. Breakdown

As of the date of these financial statements, the Group presented the following liabilities and corresponding legal deposits related to legal proceedings:

	Parent Company					
	Provisions for losses with legal proceedings		Legal deposits		Net balance	
	2019	2018	2019	2018	2019	2018
Tax and civil (i)	33,148	31,738	(12,299)	(12,480)	20,849	19,258
Labor and social security (ii)	60,691	93,996	(22,499)	(20,778)	38,192	73,218
	93,839	125,734	(34,798)	(33,258)	59,041	92,476

	<b>Consolidated</b>					
	<b>Provisions for losses with legal proceedings</b>		<b>Legal deposits</b>		<b>Net balance</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Tax and civil (i)	50,273	47,557	(15,212)	(14,842)	35,061	32,715
Labor and social security (ii)	63,217	96,933	(22,589)	(21,052)	40,628	75,881
	113,490	144,490	(37,801)	(35,894)	75,689	108,596

Activities in provisions for losses on legal proceedings are demonstrated below:

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
As of January 1	125,734	114,975	144,490	124,418
Constitution of provision	13,894	35,916	15,440	52,069
Adjustment for inflation	6,223	11,462	7,389	11,985
Process write-off	(33,069)	(11,424)	(35,127)	(13,568)
Reversal of provision for the fiscal year	(18,943)	(25,195)	(18,702)	(30,414)
As of December 31	93,839	125,734	113,490	144,490

The full amount of the provision for contingencies is classified in non-current liabilities. The following is a conciliation of the net effect of the provision for losses on legal proceedings recognized in the statement of profit and loss for the fiscal year to the statement of cash flows:

	<b>Parent</b>		<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Constitution of provision	13,894	35,916	15,440	52,069
Reversal of provision	(18,943)	(25,195)	(18,702)	(30,414)
	<b>(5,049)</b>	<b>10,721</b>	<b>(3,262)</b>	<b>21,655</b>

**(i) *Civil and tax proceedings***

They substantially refer to civil lawsuits, filed by consumers alleging, in summary, non-conformities in relation to the medicines produced by the Group.

**(ii) *Labor proceedings***

The Group recorded a provision for contingencies for labor claims in which it is a defendant based on an estimate of loss prepared by its legal advisors, whose main requests are: payment of overtime hours, indemnification for work accident and ancillary responsibilities of third-party companies.

Group's Management, based on the opinion of its legal advisors, believes that there are no significant risks that are not covered by sufficient provisions in its financial statements, or that may result in a material impact on its future results.

**(iii) Possible losses, not provisioned**

The Group has tax, civil and labor lawsuits involving risks of loss classified as possible by Management, based on the evaluation of its legal advisors, for which there are no provisions accrued, since the accounting policies adopted in Brazil do not require its recording, as evidenced by the breakdown and estimate below:

	Parent		Consolidated	
	2019	2018	2019	2018
Civil (*)	67,790	198,676	86,351	225,196
Taxes - IR/CSLL (**)	1,855,780	1,586,108	1,855,780	1,586,108
Labor	149,853	169,651	157,923	172,719
Taxes - others	22,334	48,006	22,648	48,043
	2,095,757	2,002,441	2,122,702	2,032,066

(\*) Refers substantially to termination where compensation for loss of profits, fines and interest is being discussed. The amounts in 2018 were revised by the attorneys to reflect a more realistic amount of discussion expectation based on the evidence.

(\*\*) Refers substantially to tax assessment notice No. 16643.000392/2010-61 drawn up by the Federal Revenue Service, which is an administrative proceeding for the collection of Corporate Income Tax ("IRPJ"), Social Contribution on Net Income ("CSLL"), Social Integration Program ("PIS"), Social Contribution on Billings ("COFINS") and separate fines plus charges, based on the alleged non-deductibility of goodwill amortization in merger of a company that would have artificially reduced the calculation basis of IRPJ and CSLL. Notwithstanding the regularity of the procedure adopted, the Inspection disregarded the expenses of amortization of goodwill since it considered, in summary, that there was no business purpose for acquiring the equity interest with goodwill as the transaction occurred "within the same economic group."

The Company, with the support of its tax advisory specialists in this area, classifies as possible the chances of success since, contrary to what was alleged by the Tax Office, the transaction had a strong business purpose involving a joint venture with a foreign company, foreign to the economic group, aiming at the Group's entry/consolidation in the European pharmaceutical market, mainly by the legislation on medicines in question being extremely adherent to that of Brazil. In addition, the operation was carried out within the strict legality, and all acts were duly registered and published, which demonstrates the inexistence of bad faith, recognized by the 1<sup>st</sup> CARF Class, which canceled the assessment. Recently, the company obtained a court decision, which upheld that decision favorable to the company (ordering the annulment of the decision handed down at the last administrative level, which had received an appeal from the National Treasury, which did not meet the requirements for admissibility).

(\*\*\*) The Company has an ICMS tax incentive granted by the state government of Brasília. The Federal Supreme Court (STF) issued decisions in Direct Actions, declaring the unconstitutionality of several state laws that granted ICMS tax benefits without prior agreement between States.

Although it does not have ICMS tax incentives judged by the STF, the Company has been monitoring, with its legal advisors, the evolution of this issue in the courts to determine possible impacts in its operations and consequent impact on financial statements.

**b. Uncertainty about tax treatments**

As shown in the table above, the tax authorities claim that the Group does not meet all the criteria to deduct the goodwill amortization for income tax and social security contribution purposes. The Group believes that goodwill arose from an economically based transaction and can therefore be used for tax purposes. No amount has been recognized in these consolidated financial statements because the Group believes that the tax rule used in the past was in compliance with applicable law and believes it is probable that it will successfully defend the Group's tax treatment in court.

The Group believes that its provisions for tax liabilities are adequate for all fiscal years based on its assessment of many reasons, including interpretations of tax law and past experience.

**22 Income tax and social security contribution**

**a. Deferred income tax and social security contribution**

Deferred tax assets are recognized to the extent it is probable that the future taxable income will be available to be used in offsetting the temporary differences, based on projections of future results made and grounded on internal assumptions and on future economic scenarios that could change.

Deferred income tax and social security contribution have the following activity and origin in 2019:

	<b>Parent</b>		
	<b>Balance as of 12/31/2018</b>	<b>Recognized in profit or loss</b>	<b>Balance as of 12/31/2019</b>
Provisions for labor proceedings	31,959	(11,324)	20,635
Net effect of revenue reversal of billed and undelivered products	33,385	(16,938)	16,447
Provision for obsolescence	5,775	4,823	10,598
Provision for losses with tax and civil lawsuits	10,791	479	11,270
Provision for impairment loss on trade receivables	1,350	(272)	1,078
Provision for share of profit	8,457	(3,377)	5,080
Provision for free sample	1,390	2,883	4,273
Provision for vehicle rental	98	681	779
Provision for deferred exchange variation for tax purposes	3,776	(8,841)	(5,065)
Lease - CPC06/ IFRS16	-	1,338	1,338
Provision for taxes on loan interest	-	(32,139)	(32,139)
Other provisions	7,395	8,092	15,486
	<b>104,376</b>	<b>(54,595)</b>	<b>49,781</b>

	<b>Consolidated</b>		
	<b>Balance as of 12/31/2018</b>	<b>Recognized in profit or loss</b>	<b>Balance as of 12/31/2019</b>
Provisions for labor proceedings	32,918	(11,608)	21,310
Net effect of revenue reversal of billed and undelivered products	35,597	(15,413)	20,184
Provision for impairment loss on trade receivables	6,348	(4,900)	1,448
Provision for obsolescence	10,274	688	10,962
Provision for share of profit	8,873	(3,686)	5,187
Provision for losses with tax and civil lawsuits	13,963	679	14,642
Provision for free sample	1,627	3,150	4,777
Provision for vehicle rental	197	708	905
Provision for deferred exchange variation for tax purposes	3,766	(8,842)	(5,076)
Lease - CPC06	-	1,410	1,410
Provision for taxes on loan interest	-	(32,139)	(32,139)
Other provisions	15,609	463	16,072
	<b>129,172</b>	<b>(69,490)</b>	<b>59,682</b>

Deferred income tax and social security contribution have the following activity and origin in 2019:

**b. Current income tax and social security contribution**

Reconciliation of income tax and social security contribution expenses is presented as follows:

	<b>Parent</b>		<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Income before income tax and social security contribution	557,978	278,704	634,196	311,830
Tax calculated based on local tax rates - 34%	(189,713)	(94,759)	(215,627)	(106,022)
Equity accounting income	20,990	22,451	-	-
Technological innovation (R&D) Law No. 11196/05	2,491	10,916	2,491	10,916
Investment Subsidy	11,633	-	11,633	-
Permanent additions/exclusions	13,737	70,677	(14,555)	71,475
Income tax and social security contribution in profit or loss	<u>(140,862)</u>	<u>9,285</u>	<u>(216,058)</u>	<u>(23,631)</u>
Current income tax and social security contribution	(86,267)	(9,934)	(146,568)	(54,561)
Deferred income tax and social security contribution	<u>(54,595)</u>	<u>19,218</u>	<u>(69,490)</u>	<u>30,929</u>
Income tax and social security contribution in profit or loss	<u>(140,862)</u>	<u>9,284</u>	<u>(216,058)</u>	<u>(23,632)</u>
Effective tax rate	-25%	3%	-34%	8%

**c. Income tax and social security contribution payable**

	Parent		Consolidated	
	2019	2018	2019	2018
IRPJ (Corporate Income Tax) payable	-	-	25,320	14,453
CSLL payable	-	-	7,821	4,100
	<u>-</u>	<u>-</u>	<u>33,141</u>	<u>18,553</u>

Activity of income tax and social security contribution payable, as follows:

	Parent		Consolidated	
	2019	2018	2019	2018
Initial balance of the fiscal year	-	19,572	18,553	26,649
(+) Current IR CS provision for the fiscal year	86,267	9,934	146,568	54,561
(+) IR/CS overpaid	-	4,689	-	4,159
(-) Offsetting with federal taxes	(66,957)	-	(69,631)	-
(-) Advances/payments in the period	(19,310)	(34,195)	(62,349)	(66,816)
	<u>-</u>	<u>-</u>	<u>33,141</u>	<u>18,553</u>

**23 Taxes in installments**

	Parent		Consolidated	
	2019	2018	2019	2018
Payment in installments - Law No. 11941/09 (*)	19,403	22,499	20,289	23,535
Payment of ICMS in installments (**)	3,918	3,918	3,918	3,918
Payment of ICMS in installments - Loss (***)	30,443	-	30,443	-
	<u>53,764</u>	<u>26,417</u>	<u>54,650</u>	<u>27,453</u>
Current	15,775	8,044	15,958	8,221
Non-current	37,989	18,373	38,692	19,232
	<u>53,764</u>	<u>26,417</u>	<u>54,650</u>	<u>27,453</u>

(\*) In November 2009, the Group and its subsidiary EMS Sigma Pharma adhered to REFIS IV, a program for installment and tax debt settlement. The balances of taxes in installments are subject to monetary adjustment based on SELIC rate variation. The adhesion to the program aimed at equalizing and regularizing tax liabilities through a special system for payment and installment plan for its tax obligations. Federal taxes (PIS, COFINS, IRPJ and CSLL) and pension plans under judicial discussion were included in the program, in the 180-month installment plan option, which conferred to the Group and its subsidiary a partial amnesty of 60% of the fine, 20% on separate fines and reduction of 25% in interest over original debt. The adhesion to the installment plan was consolidated in July 2011 by the Brazilian Federal Revenue Office and Attorney-General of National Treasury. The principal amount of consolidated debt of EMS S.A. was of R\$ 23,922, and for Sigma Pharma was of R\$1,193.

In December 2013, the Group requested payment in installments of debts from reopening of Law 11941/2009, which included social security debts not paid in installments previously. As of December 31, 2016, the adhesion to installment payment is pending consolidation.

In August 2014, the Group and its subsidiary Sigma Pharma requested payment in installments of debts in accordance with Law 12996/2014, which included amounts not previously paid in installments, in the 120-month installment plan option, which granted the Group and its subsidiary partial amnesty of 70% on late fines and official assessment fines, 25% on separate fines, 30% on default interest and 100% on the value of legal charge. The adhesion to the installment plan was consolidated in July 2016 by the Brazilian Federal Revenue Office. The principal amount of consolidated debt of EMS S.A. was of R\$1,762, and for Sigma Pharma was of R\$51.

Due to consolidation process in 2016, there was an increase of R\$1,126.

- (\*\*) Adhesion to ICMS installments with the Federal District Government occurred in the second half of 2007, for discharge of ICMS debts generated by disregarding of credits considered undue by tax authorities, which reduced the payable balance of such tax. The Group's down payment of R\$435 was paid in 36 monthly successive installments, the first of which was due in May 2007. The remaining balance is fully due in the month following the end of installment payment. For each installment, monetary adjustment equivalent to the INPC variation plus simple interest of 1% per month over the installment period will be applied.

The balance of taxes paid in installments as of December 31, 2019 and 2018 is as follows:

	Parent		Consolidated	
	2019	2018	2019	2018
Principal	14,913	17,992	15,478	18,627
Interest	8,408	8,425	8,729	8,826
	<u>23,321</u>	<u>26,417</u>	<u>24,207</u>	<u>27,453</u>
Total of the payment in installments				
Payment in installments - Law No. 11941/09 (*)	19,403	22,499	20,289	23,535
Payment of ICMS in installments (**)	3,918	3,918	3,918	3,918

- (\*\*\*) Payment in installments of taxes related to assets written off due to the accident in November 2018, related to ICMS credits taken at the entry of goods that were incinerated due to the fire in Hortolândia, State of São Paulo. Such fire affected the shipping and warehouse areas of EMS' headquarters in Hortolândia, State of Sao Paulo, on October 20, 2018. The Group paid R\$435 in 60 monthly successive installments, the first of which was due in May 2019. For each installment, monetary adjustment equivalent to the Selic adjustment plus simple interest of 2% per month over the installment period will be applied.

## 24 Other trade payables

	Parent		Consolidated	
	2019	2018	2019	2018
Payment in advance from customers	35,452	86,858	36,217	81,328
Payment in advance from related parties	24,273	7,930	24,273	7,930
Payable land	12,061	12,061	12,061	12,061
Expenses with employees	7,997	5,293	8,220	5,761
Exclusivity right	5,333	-	5,333	-
Projects expenses	3,438	1,479	3,438	1,479
Third-party services	26,696	13,206	27,652	13,210
Car rental insurance	2,294	289	2,942	668
Other	4,916	9,936	16,587	26,363
	<u>122,460</u>	<u>137,052</u>	<u>136,723</u>	<u>148,800</u>
Current	117,126	130,119	131,389	141,867
Non-current	5,334	6,933	5,334	6,933
	<u>122,460</u>	<u>137,052</u>	<u>136,723</u>	<u>148,800</u>



## 25 Equity

### a. Share capital

The subscribed and paid-in share capital as of December 31, 2019 and 2018 is R\$221,708, consisting of 20,000,000 common shares with par value of R\$11,0854 each, distributed as follows:

	<b>Shares</b>
NC Participações S.A.	19,800,000
Germed Farmacêutica LDA.	<u>200,000</u>
	<u><u>20,000,000</u></u>

Each common share shall entitle one vote at resolutions of Special General Meeting. The shareholders will be allocated, in each fiscal year, a minimum dividend of 25% of net income, calculated in accordance with Brazilian corporate law.

### b. Capital reserve

#### ***Goodwill incorporation reserve***

Refers to the counter entry of goodwill incorporated net of difference between its value and the tax benefit generated by its amortization, which is derived from merger of shares of its parent company EMS Investimentos S/A. Such reserve may be capitalized in future resolutions by the General Meeting.

### c. Earnings reserve

#### ***Tax incentive reserve***

The Group has a government subsidy represented by the credit benefit arising from the Federal District's Integrated and Sustainable Economic Development Promotion Program (PRÓ-DF), granted in the form of a subsidized loan obtained from Banco Regional de Brasília (BRB). The economic benefit obtained is accounted for as deferred income and recorded in statement of profit or loss in equal amounts according to the maturities of said loans. Substantial part of the loan was settled and the respective subsidy revenue was recognized in profit or loss for the fiscal year, and subsequently transferred to line item of tax incentive in equity, as earnings reserve in 2014. In 2016, due to discharge of Ideas Program, the realization of R\$3,003 was made. However, we are still awaiting the auction to settle residual value.

The Group has a government subsidy represented by the benefit right to exclude from the Income Tax and Social Security Contribution calculation basis the gains related to the ICMS tax benefit granted by the State of São Paulo in accordance with complementary law 160 and in 2019, based on the opinion of legal advisors the Company exercised the right of exclusion.

As of December 31, 2019, amounts determined and paid resulting based on this exclusion in the amount of R\$11,663 were recognized in income for the fiscal year in the income tax and social security contribution - current line item.

In 2019, as required by income tax legislation, the tax benefits used were allocated to the tax incentive reserve limited to the amount of net income for the fiscal year in the amount of R\$34,214.

***Legal reserve***

Constituted in accordance with corporate law and bylaws, based on 5% of net income for the fiscal year up to 20% of the share capital or 30% of the capital balance plus reserves.

As of December 31, 2019 and 2018, the Group did not recognize as legal reserve the amount of 5% of net income for each fiscal year, as it reached the limit of 20% of share capital, as determined in article 193 of Law 6404/86.

***Earnings reserve***

Recorded with the balance of net profit of 2019 and 2018 after the appropriation of dividends and the constitution of legal reserve. The amount of retained earnings in prior years was used for distribution of profits, as determined by the General Meeting. The remaining balance of retained earnings will be distributed to shareholders in the subsequent fiscal year, as approved at the meeting.

**d. Dividends**

The Group's bylaws set forth distribution of minimum mandatory dividend of 25% of the adjusted net income in accordance with corporate Law, according to calculation demonstrated below:

	<b>2019</b>	<b>2018</b>
Net income for the fiscal year	417,116	287,988
(-) Investment Subsidy	<u>(34,214)</u>	<u>-</u>
Dividends calculation basis	<u>382,902</u>	<u>287,988</u>
Minimum mandatory dividend (25%)	<u>95,726</u>	<u>71,997</u>
Earnings reserve from previous fiscal years distributed in the fiscal year	22,014	227,195
Total of proposed dividends	117,740	299,192

**26 Revenue**

The reconciliation between gross sales and net revenue is as follows:

	<b>Parent</b>		<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Gross sales of products and services less commercial discounts	4,325,281	4,121,564	4,733,440	4,490,409
Tax on sales	(676,964)	(661,850)	(678,586)	(727,442)
Returns on sales	<u>(117,392)</u>	<u>(118,407)</u>	<u>(137,697)</u>	<u>(137,801)</u>
Net operating income	<u>3,530,925</u>	<u>3,341,307</u>	<u>3,917,157</u>	<u>3,625,166</u>

## 27 Expenses by type

	Parent		Consolidated	
	2019	2018	2019	2018
Raw materials and consumables	(1,659,734)	(1,642,441)	(1,740,668)	(1,668,853)
Salaries and welfare charges	(535,088)	(479,503)	(586,657)	(528,270)
Third-party services - legal entity	(236,338)	(160,361)	(257,685)	(180,855)
Social security costs	(142,349)	(127,682)	(154,438)	(138,507)
Advertising costs	(172,489)	(108,210)	(190,181)	(121,810)
Transport expenses	(92,875)	(74,679)	(109,884)	(88,473)
Samples	(61,907)	(55,007)	(73,828)	(62,426)
Benefits provided by Law	(51,805)	(52,984)	(55,500)	(57,288)
Operating lease payments	(39,456)	(38,411)	(44,727)	(43,672)
Cleaning and office supplies	(42,384)	(33,082)	(45,450)	(35,975)
Travel, accommodation and meals	(44,489)	(35,611)	(50,793)	(40,961)
Other employee benefits	(66,094)	(36,703)	(73,321)	(39,703)
Profit sharing plan	(23,125)	(32,282)	(24,604)	(33,970)
Third-party services - maintenance and repairs	(36,525)	(28,396)	(37,891)	(29,765)
Depreciation, amortization and impairment charges	(17,864)	(54,139)	(18,972)	(56,776)
Electricity, water and telephone	(16,741)	(17,355)	(19,259)	(19,587)
Fuels and lubricants	(13,872)	(16,119)	(15,302)	(17,403)
Provision for losses in legal proceedings	38,745	(7,568)	38,935	(17,158)
Commissions on sales	(2,741)	(264)	(4,392)	(892)
Other expenses, net of other income	(19,702)	(10,065)	(23,626)	(13,025)
Lease	6,765	-	7,323	-
Reversal (provision) for impairment loss on trade receivables	802	19,298	6,019	145
	<u>(3,229,266)</u>	<u>(2,991,564)</u>	<u>(3,474,901)</u>	<u>(3,195,224)</u>
Total cost of sales, selling and administrative expenses	<u>(3,229,266)</u>	<u>(2,991,564)</u>	<u>(3,474,901)</u>	<u>(3,195,224)</u>
	Parent		Consolidated	
	2019	2018	2019	2018
Costs of sales	(2,018,640)	(1,955,218)	(2,126,729)	(2,005,697)
Selling expenses	(331,750)	(238,177)	(380,281)	(273,618)
Administrative expenses	(879,678)	(817,467)	(973,910)	(916,054)
Impairment loss on trade receivables	802	19,298	6,019	145
	<u>(3,229,266)</u>	<u>(2,991,564)</u>	<u>(3,474,901)</u>	<u>(3,195,224)</u>

## 28 Other Operating Expenses (Revenues), net

	Parent		Consolidated	
	2019	2018	2019	2018
<b>Other Revenues</b>				
Insurance Reimbursement	86,853	199,640	86,853	199,640
Loss - Inventories/Fixed Assets write-off	48,438	-	48,393	-
Others	26,035	22,230	26,217	22,630
	<u>161,326</u>	<u>221,870</u>	<u>161,436</u>	<u>222,270</u>
<b>Other Expenses</b>				
Loss - Inventories/Fixed Assets write-off (*)	-	(290,754)	-	(290,754)
Taxes	(28,321)	(13,442)	(39,841)	(18,493)
Others	(6,060)	(20,556)	(33,394)	(22,325)
	<u>(34,381)</u>	<u>(324,752)</u>	<u>(73,235)</u>	<u>(331,572)</u>
Other expenses (revenues), net	<u>126,945</u>	<u>(102,882)</u>	<u>88,228</u>	<u>(109,302)</u>

(\*) Refers to losses recognized by the Group due to an accident (fire) occurred as of October 20, 2018 at the Company's headquarters located in the city of Hortolândia, State of São Paulo.

## 29 Net financial revenues (expenses)

	Parent		Consolidated	
	2019	2018	2019	2018
<b>Financial revenue</b>				
Positive exchange variation	17,017	37,123	17,538	37,628
Financial revenue from short-term bank deposits	7,095	6,078	13,308	10,085
Interest on trade receivables	3,080	4,451	4,535	5,406
Lease - IFRS 16	646	-	646	-
Revenue - Interest on loans	94,528	-	94,528	-
Others	10,943	10,757	11,018	10,809
	<u>133,309</u>	<u>58,409</u>	<u>141,573</u>	<u>63,929</u>
<b>Financial expense</b>				
Interest on loans	(22,340)	(25,580)	(24,806)	(26,386)
Negative exchange variation	(27,064)	(42,001)	(27,676)	(43,565)
Discounts granted	(1,181)	(1,998)	(1,348)	(2,897)
Lease - interest payable	(10,873)	-	(11,750)	-
Others	(4,212)	(23,019)	(4,460)	(23,279)
	<u>(65,670)</u>	<u>(92,598)</u>	<u>(70,040)</u>	<u>(96,127)</u>
Financial expenses, net	<u>67,639</u>	<u>(34,189)</u>	<u>71,533</u>	<u>(32,199)</u>

### 30 Earnings per share – Basic and diluted

Basic and diluted earnings per share are calculated by dividing the profit attributable to Company's shareholders by the weighted average of common shares held during fiscal year.

	<b>2019</b>	<b>2018</b>
Profit attributable to Company's shareholders	417,116	287,988
Weighted average number of common shares (thousands)	20,000	20,000
Basic and diluted earnings per share - R\$	20.86	14.40

Basic and diluted earnings per share are the same as there are no shares with possible dilutive effect.

### 31 Related parties

The principal balances of assets and liabilities as of December 31, 2019 and 2018, as well as the transactions that influenced the results for the fiscal years, relative to transactions with related parties, derive from transactions of the Company with its related parties, which were realized in conditions defined by them and are as follows:

#### a. Consolidated

The Group is controlled by the holding NC Participações (incorporated in Brazil), which holds 99% of the shares of Company EMS S.A. The remaining 1% is held by Companhia Germed LDA, headquartered in Portugal.

#### b. Parent

The Group's ultimate controlling party is NC Participações S/A.

#### c. Sales and resale of goods

	Parent		Consolidated	
	2019	2018	2019	2018
Germed Farmacêutica Ltda.	152,239	442,782	154,757	442,791
Legrand Pharma Indústria Farmacêutica Ltda.	203,877	313,709	-	-
EMS Sigma Pharma Ltda (*)	242,134	14,465	-	-
Nova Química Farmacêutica S.A.	109,158	244,053	111,019	249,704
Lafiman Distribuidora de Medicamentos Ltda.	24,489	77,534	29,409	85,661
Novamed Fabricação de Produtos Farmacêuticos Ltda.	70,633	50,667	70,633	50,667
CPM - Concessionária Paulista de Medicamentos S/A.	1,117	2,554	-	-
Others	6,917	13	6,896	-
	810,564	1,145,777	372,314	828,823

(\*) Revenue from the packaging and availability sale of physical structure and labor in the industrialization services of products manufactured by Novamed Fabricação de Produtos Farmacêuticos Ltda. This process was structured by the Group as of November 2018.

**d. Net purchases of products and services**

	Subsidiary		Consolidated	
	2019	2018	2019	2018
Novamed Fabricação de Produtos Farmacêuticos Ltda.	1,144,713	1,016,885	1,239,684	1,022,696
Germed Farmacêutica Ltda.	49,044	51,753	54,325	57,002
Nova Química Farmacêutica S.A.	5,148	3,596	6,511	6,754
Legrand Pharma Indústria Farmacêutica Ltda.	1,535	1,552	-	-
EMS Sigma Pharma Ltda.	257	277	-	-
Others	164	-	164	-
	<u>1,200,861</u>	<u>1,074,063</u>	<u>1,300,684</u>	<u>1,086,452</u>

**e. Fiscal year closing balances arising from product sales/purchases**

*Trade receivables from related parties*

	Parent		Consolidated	
	2019	2018	2019	2018
Novamed Fabricação de Produtos Farmacêuticos Ltda.	3,574	54,492	178,258	63,693
Germed Farmacêutica Ltda.	4,865	27,261	5,795	27,274
EMS Sigma Pharma Ltda	237,304	14,465	-	-
Multilab Ind. e Com. Prod. Farm. Limited company	7,256	-	7,256	-
Legrand Pharma Indústria Farmacêutica Ltda.	6,581	8,717	-	-
Nova Química Farmacêutica S.A.	4,275	8,459	6,462	16,171
Lafiman Distribuidora de Medicamentos Ltda.	2,282	3,819	30,935	42,416
CPM - Concessionária Paulista de Medicamentos S/A	740	403	-	-
Luxbiotech Farmacêutica Ltda.	11	22	-	-
Other	1,682	891	3,617	957
	<u>268,570</u>	<u>9</u>	<u>232,323</u>	<u>150,511</u>

Balances of trade receivables from related parties are mainly due to sales operations and mature in up to 120 days. Trade receivables have no guarantees and are not subject to interest.

*Other receivables from related parties*

	Parent		Consolidated	
	2019	2018	2019	2018
Luxbiotech Farmacêutica Ltda.	7,840	29,695	-	-
Instituto Vita Nova	6,870	750	6,870	750
CPM - Concessionária Paulista de Medicamentos S/A	-	-	-	-
Lorraine Administradora de Bens e Participações Ltda.	-	-	-	-
Other	3,143	1,804	3,103	1,804
	<u>17,853</u>	<u>32,249</u>	<u>9,973</u>	<u>32,249</u>

**Trade payables – related parties**

	Parent		Consolidated	
	2019	2018	2019	2018
Novamed Fabricação de Produtos Farmacêuticos Ltda.	914,605	692,161	920,848	698,765
Germel Farmacêutica Ltda.	200,128	171,438	203,906	171,970
Multilab Ind. e Com. Prod. Farm. Limited company	3,245		3,245	
Nova Química Farmacêutica S.A.	2,869	10,114	3,588	14,887
EMS Sigma Pharma Ltda.	5,574	9,086	-	-
Legrand Pharma Indústria Farmacêutica Ltda.	25	2,051	-	
Other	10,022	16,520	10,704	17,116
	<u>1,136,468</u>	<u>901,370</u>	<u>1,142,291</u>	<u>902,738</u>

**Other trade payables to related parties - advances**

	Parent		Consolidated	
	2019	2018	2019	2018
Nova Química Farmacêutica S.A.	19,433	-	19,433	
Innovoren Pharma S/A.	4,840	6,695	4,840	6,695
Lafiman Distribuidora de Medicamentos Ltda.	-	1,235		1,235
	<u>24,273</u>	<u>7,930</u>	<u>24,273</u>	<u>7,930</u>

**f. Dividends payable and receivable**

	Parent		Consolidated	
	2019	2018	2019	2018
<b>Dividends receivable</b>				
Legrand Pharma Indústria Farmacêutica Ltda.	119,063	239,063	-	-
EMS Sigma Pharma Ltda.	707	707	-	-
	<u>119,770</u>	<u>239,770</u>	<u>-</u>	<u>-</u>

The activity of the dividends receivable balances is as follows:

	Parent	
	2019	2018
Initial balance of the fiscal year	239,770	29,968
(+) Accrued dividends receivable	17,343	266,310
(-) Dividend receipts in the fiscal year (DFC)	(137,343)	(56,508)
(=) Final balance of the fiscal year	<u>119,770</u>	<u>239,770</u>

	Parent		Consolidated	
	2019	2018	2019	2018
<b>Dividends payable</b>				
NC Participações S.A.	98,030	72,016	103,159	77,145
Germed Farmacêutica LDA.	19,130	18,154	19,130	18,154
	117,160	90,170	122,289	95,299

Trade payables to related parties are mainly due to purchase operations and constitution of provision for dividends payable.

The activity of the dividends payable balances is as follows:

	Parent		Consolidated	
	2019	2018	2019	2018
Initial balance of the fiscal year	90,170	91,723	95,299	94,289
(+) Complement of dividends payable approved in general meetings	22,014	227,195	22,014	229,760
(+) Minimum mandatory dividend	95,726	71,997	95,726	71,997
(-) Payments	(90,750)	(300,745)	(90,750)	(300,745)
(=) Final balance of the fiscal year	117,160	90,170	122,289	95,301

#### **g. Loans receivable**

	Parent		Consolidated	
	2019	2018	2019	2018
3Z Realty Desenvolvimento Imobiliario S.A.	316,093	227,961	316,093	227,961
	316,093	227,961	316,093	227,961

The balance of loans receivable has an interest rate of 1%. Management recognized during fiscal year 2019 the interest receivable from loans that had not been recorded until the previous fiscal year. The effects of previous periods in the amount of R\$68,851 (of the total recognized amount of R\$94,528) recognized in the fiscal years' statement of profit and loss were deemed immaterial by management for retrospective recognition.

The loans granted to the related party 3Z are secured by shareholders' collateral, and we therefore assessed the instrument as having low credit risk, for which reason no impairment was recorded in the financial statements.



The activity of the related party loan is demonstrated below:

	<b>3Z Realty Desenvolvimento Imobiliario S.A.</b>	<b>Total</b>	<b>3Z Realty Desenvolvimento Imobiliario S.A.</b>	<b>NC Comunicações S.A.</b>	<b>Total</b>
	<b>2019</b>	<b>Total</b>	<b>2018</b>		<b>Total</b>
Balance at the beginning of the fiscal year	227,961	227,961	227,961	42,000	269,961
Amortization of loans	(2,000)	(2,000)	-	(42,000)	(42,000)
PIS and COFINS	(4,396)	(4,396)	-	-	-
Interest recognition	94,528	94,528	-	-	-
<b>Balance as of December 31</b>	<b>316,093</b>	<b>389,680</b>	<b>227,961</b>	<b>-</b>	<b>227,961</b>

#### **h. Compensation of the key management personnel**

The compensation paid and to be paid to key Management personnel, including salaries and welfare charges, share of profit and other benefits, represents 5.23% of payroll expenses considering the fiscal year ended December 31, 2019 (6% as of December 31, 2018).

## **32 Subsequent events**

As of January 31, 2020, the World Health Organization (WHO) announced that the coronavirus (COVID-19) is a global health emergency. The outbreak triggered significant decisions by governments and private sector entities, which added to the potential impact of the outbreak, increased the degree of uncertainty for economic agents and can generate relevant impacts on the Company's financial statements.

Considering the current situation of the outbreak spread, we believe that our projection of revenues and operating cash flows for the year 2020 should be revised, which may cause the need to recognize an impairment loss allocated to the Cash Generating Unit (CGU). Considering the unpredictability of the outbreak evolution and its impacts, it is not currently feasible to estimate the financial effect of the outbreak on estimated operating income and cash flows or the recoverable amount of the CGU.

Management constantly assesses the impact of the outbreak on the Company's operations and equity and financial position, with the aim of implementing appropriate measures to mitigate the impacts of the outbreak on operations and financial statements. Up to the date of authorization for issuing these financial statements, the following main measures had been taken, including those of a social nature:

- Renegotiation of contracts with the national and international's suppliers, in order to align the acquisition of inputs for production with expectations related to the future demand for the Company's products, considering the current outbreak scenario, and to extend the payment term.
- Emphasis on production in relation to the product Hydroxychloride Sulfate, considering the expected increase in demand for this product in the current scenario.
- Implementation of temporary or definitive measures in the staff, with the objective of reducing salary expenses in the medium term, such as suspension of new hires.
- A measure to prevent contagion among employees, keeping away those who are most exposed to the risk group, such as pregnant women, employees over 60, and others.

- In-house production of alcohol gel for internal distribution to all employees.
- Negotiation of the conditions of the Company's loans and borrowings with financial institutions and payments with suppliers, to mitigate any liquidity risks.
- Cash donation to the Government of the State of São Paulo in the amount of R\$1,000,000.00, to help fight the Corona Virus, for the acquisition of masks and artificial respirators.

\* \* \*

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Officer

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