Combined financial statements

Grupo NC Farma

December 31, 2020
with Independent Auditor's Report

Building a better
working world

Grupo NC Farma

Combined financial statements

December 31, 2020

Contents

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A free translation from Portuguese into English of independent auditor's report on combined financial statements prepared in Brazilian currency in accordance with the accounting practices adopted in Brazil

Independent auditor's report on combined financial statements

The Shareholders, Board of Directors and Officers
Grupo NC Farma
Hortolândia - SP

Opinion

We have audited the combined financial statements of Grupo NC Farma ("Grupo NC" or "Group"), which comprise the statement of financial position as at December 31, 2020, and the combined statements of profit or loss, of comprehensive income, of changes in equity and of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the Group's combined financial position as at December 31, 2020, and its combined financial performance and cash flows for the year then ended in accordance with the accounting practices adopted in Brazil.

Basis for opinion

We conducted our audit in accordance with the Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the combined financial statements section of our report. We are independent of Grupo NC Farma in accordance with the relevant ethical requirements defined in the Code of Ethics for Professional Accountants and the professional standards issued by Brazil's National Association of State Boards of Accountancy (CFC), and we have fulfilled our ethical responsibilities in accordance with these standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis - Basis of preparation and presentation of the combined financial statements and restriction on distribution or use

We draw attention to Note 1.3 to the financial statements, which describes the basis of preparation of the combined financial statements. The combined financial statements were prepared for the purpose of allowing the shareholders, officers, financial institutions and potential investors of Grupo NC to assess the Group's combined financial position at December 31, 2020, and combined performance of operations for the year then ended. Consequently, these combined financial statements may not be appropriate for other purposes. Our opinion is not qualified in respect of this matter.

Other matters

Audit of corresponding figures

The combined financial statements of Grupo NC Farma for the year ended December 31, 2019 were audited by other independent auditors who issued an unmodified opinion on those financial statements on September 4, 2019.

Responsibilities of management and those charged with governance for the combined financial statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the combined financial statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these combined financial statements.

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identified and assessed the risks of material misstatement of the combined financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the combined financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the combined financial statements, including the disclosures, and whether the combined financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit procedures and significant audit findings, including deficiencies in internal control that we may have identified during our audit.

Campinas, May 31, 2021.

ERNST & YOUNG
Auditores Independentes S.S.
CRC 2SP034519/O-6

Cristiane Cléria S. Hilario
Accountant CRC-1SP243766/O-8

Grupo NC Farma

Combined statement of financial position
December 31, 2020 and 2019
(In thousands of reais)

	Note	2020	2019
Assets			
Current assets			
Cash and cash equivalents	8	**237,295**	309,611
Trade accounts receivable	10	**1,075,081**	944,583
Receivables from related parties	29	**41,431**	37,585
Inventories	11	**1,192,144**	927,761
Taxes recoverable	12	**376,910**	494,401
Other receivables	13	**313,668**	67,786
Total current assets		**3,236,529**	2,781,727
Noncurrent assets			
Short-term investments earmarked for loans	9	**4,526**	4,124
Taxes recoverable	12	**349,502**	73,870
Intercompany loans	29	**-**	316,093
Deferred income and social contribution taxes	21.a	**124,201**	88,059
Judicial deposits	20	**50,751**	48,389
Other receivables	13	**5,082**	5,956
Investments	16	**70,966**	71,870
Right-of-use assets	14	**152,971**	129,716
Intangible assets		**32,687**	37,665
Property, plant and equipment	15	**1,187,222**	1,066,628
Total noncurrent assets		**1,977,908**	1,842,370
Total assets		**5,214,437**	4,624,097

Grupo NC Farma

Combined statement of financial position
December 31, 2020 and 2019
(In thousands of reais)

	Note	2020	2019
Liabilities and equity			
Current liabilities			
Trade accounts payable	17	**513,354**	255,935
Trade payables to related parties	29	**19,945**	19,124
Loans and financing	18	**59,028**	100,689
Lease liabilities	14	**48,484**	45,309
Intercompany loans payable	29	**4,396**	1,399
Payroll and related charges	19	**128,479**	110,185
Taxes payable		**29,631**	70,083
Income and social contribution taxes payable	21.c	**47,558**	69,480
Taxes in installments	22	**26,009**	25,636
Dividends payable	29	**166,058**	552,589
Other payables	23	**135,871**	131,776
Total current liabilities		**1,178,813**	1,382,205
Noncurrent liabilities			
Loans and financing	18	**344,070**	236,277
Lease liabilities	14	**113,865**	91,305
Intercompany loans payable	30	**10,860**	15,255
Taxes in installments	22	**55,092**	75,914
Deferred income and social contribution taxes	21.a	**31,655**	16,968
Provision for losses on legal proceedings	20	**162,182**	150,435
Deferred revenue - government grants		**3,497**	23,199
Other payables	23	**15,928**	5,334
Total noncurrent liabilities		**737,149**	614,687
Equity	24		
Capital		**863,524**	336,696
Capital reserves		**164,019**	164,019
Tax incentive reserve		**818,273**	943,102
Legal reserve		**57,545**	57,545
Equity adjustment		**19,542**	7,023
Income reserve		**1,378,358**	1,116,759
Equity attributable to controlling interests		**3,301,261**	2,625,144
Noncontrolling interests		**(2,786)**	2,061
Total equity		**3,298,475**	2,627,205
Total liabilities and equity		**5,214,437**	4,624,097

See accompanying notes.

Grupo NC Farma

Combined statement of profit and loss
Years ended December 31, 2020 and 2019
(In thousands of reais)

	Note	Combined 2020	2019
Net operating revenue	25	**4,984,743**	4,338,177
Cost of sales	26	**(1,760,026)**	(1,409,426)
Gross profit		**3,224,717**	2,928,751
Selling expenses	26	**(433,924)**	(421,009)
Administrative expenses	26	**(1,131,154)**	(1,050,632)
Equity pickup	16	**(20,041)**	32,179
Other income (expenses), net	27	**(18,992)**	49,545
Income before net finance income (costs) and taxes		**1,620,606**	1,538,834
Finance income	28	**104,739**	164,597
Finance costs	28	**(205,272)**	(111,185)
Finance income (costs), net		**(100,533)**	53,412
Income before income and social contribution taxes		**1,520,073**	1,592,246
Income and social contribution taxes	21.b	**(307,168)**	(356,045)
Net income for the year		**1,212,905**	1,236,201
Net income attributable to controlling interests		**1,217,480**	1,235,179
Net income attributable to noncontrolling interests		**(4,575)**	1,022

See accompanying notes.

Grupo NC Farma

Combined statement of comprehensive income
Years ended December 31, 2020 and 2019
(In thousands of reais)

	2020	2019
Net income for the year	**1,212,905**	1,236,201
Other comprehensive income	**12,519**	4,980
Total comprehensive income	**1,225,424**	1,241,181
Attributable to controlling interests	**1,229,999**	1,240,159
Attributable to noncontrolling interests	**(4,575)**	1,022

See accompanying notes.

Grupo NC Farma

Combined statement of changes in equity
Years ended December 31, 2020 and 2019
(In thousands of reais)

				Income reserve							
	Note	Capital	Capital reserve	Tax incentive reserve	Equity adjustment	Legal reserve	Income reserve	Retained earnings	Total equity	Noncontrolling interests	Total equity
Balance at December 31, 2018		336,696	164,019	652,034	2,043	55,840	384,483	-	1,595,115	(677)	1,594,438
Net income for the year		-	-	-	-	-	-	1,235,179	1,235,179	1,022	1,236,201
Cumulative translation adjustment		-	-	-	4,980	-	-	-	4,980	-	4,980
Allocation of net income for the year											
Legal reserve		-	-			1,705	-	(1,705)	-	-	-
Tax incentive reserve	24.c	-	-	291,068	-	-	-	(291,068)	-	-	-
Additional dividends from previous period, as approved in meeting		-	-	-	-	-	(22,014)	-	(22,014)	-	(22,014)
Proposed dividends	24.d	-	-	-	-	-	-	(188,116)	(188,116)		(188,116)
Transactions with noncontrolling interests		-	-	-	-	-	-	-	-	1,716	1,716
Recognition of income reserve		-	-				754,290	(754,290)	-		-
Balance at December 31, 2019		336,696	164,019	943,102	7,023	57,545	1,116,759	-	2,625,144	2,061	2,627,205
Tax incentive reserve paid into capital	24.a	526,828	-	(526,828)	-	-	-	-	-	-	-
Incentive reserve from prior years		-	-	(446)	-	-	-	-	(446)	-	(446)
Net income for the year								1,217,480	1,217,480	(4,575)	1,212,905
Cumulative translation adjustment	16	-	-	-	12,519	-	-	-	12,519	-	12,519
Allocation of net income for the year											
Legal reserve		-	-	-	-	-	-	-	-	-	-
Tax incentive reserve	24.c	-	-	402,445	-	-	-	(402,445)	-	-	-
Additional dividends from previous period, as approved in meeting		-	-	-	-	-	(173,778)	-	(173,778)	-	(173,778)
Proposed dividends	24.d	-	-	-	-	-	-	(379,658)	(379,658)	-	(379,658)
Transactions with noncontrolling interests		-	-	-	-	-	-	-	-	(272)	(272)
Recognition of income reserve		-	-	-	-	-	435,377	(435,377)	-		
Balance at December 31, 2020		863,524	164,019	818,273	19,542	57,545	1,378,358	-	3,301,261	(2,786)	3,298,475

See accompanying notes.

Grupo NC Farma

Combined statement of cash flows
Years ended December 31, 2020 and 2019
(In thousands of reais)

	Note	2020	2019
Cash flows from operating activities			
Income before income and social contribution taxes		**1,520,073**	1,592,246
Adjustments for:			
Depreciation and amortization	14 and 15	**96,517**	65,919
Right-of-use assets written off	14	**3,445**	-
Loss on disposal of property, plant and equipment	15	**6,697**	11,350
(Reversal of) Provision for impairment losses on receivables	10	**(10,397)**	(6,627)
(Reversal of) inventory valuation allowance	11	**18,768**	23,428
Provision for legal proceedings	20	**17,064**	(7,492)
Provision for interest		**78,779**	38,663
Equity pickup	16	**20,041**	(32,179)
Unrealized exchange gains (losses) on financing activities		**(7,585)**	11,659
Insurance claim written off - fire	27	**-**	(48,393)
Right to insurance claim refund - fire	27	**-**	(86,853)
Provision for interest on intercompany loans		**-**	(94,528)
Changes in assets and liabilities			
Trade accounts receivable	10	**(117,946)**	(203,690)
Inventories	11	**(276,129)**	(234,950)
Accounts receivable from related parties	29	**(3,846)**	15,171
Taxes recoverable	12	**(268,245)**	(229,446)
Other receivables	13	**9,334**	198,843
Contingencies and judicial deposits	20	**(10,770)**	(40,233)
Trade and other payables	17	**250,685**	(29,644)
Taxes payable		**(30,312)**	4,550
Taxes in installments	22	**(20,450)**	19,235
Trade payables to related parties	29	**821**	(1,799)
Cash generated from operating activities		**1,276,544**	965,230
Interest paid	18 and 29d	**(8,008)**	(15,850)
Income and social contribution taxes paid	21	**(240,888)**	(214,626)
Net cash from operating activities		**1,027,648**	734,754
Cash flows from investing activities			
Capital expenditures	15	**(178,422)**	(138,669)
Intercompany loans received	29	**306,310**	-
Increase in noncontrolling interests	16	**(6,400)**	-
(Investments in)/withdrawal of short-term investment earmarked for tax incentives		**-**	8,529
Acquisition of intangible assets		**(2,737)**	(898)
Intercompany loans	29	**-**	2,000
Other investments		**-**	6,752
Net cash from (used in) investing activities		**118,751**	(122,286)
Cash flows from financing activities			
Short-term investments (withdrawals) earmarked for loans		**(402)**	(489)
Loans and financing raised	18	**107,917**	-
Leases		**(52,418)**	(47,955)
Payment of principal and interest on loans and financing	18	**(97,803)**	(106,792)
Intercompany loans raised	29	**-**	16,000
Payment of principal of intercompany loans	29	**(1,142)**	-
Dividends paid to Group shareholders/unitholders	24	**(1,174,867)**	(501,750)
Net cash used in financing activities		**(1,218,715)**	(640,986)
Net decrease in cash and cash equivalents		**(72,316)**	(28,518)
Cash and cash equivalents at beginning of year	9	**309,611**	338,129
Cash and cash equivalents at end of year	9	**237,295**	309,611

See accompanying notes.

1. Operations and basis of preparation of the combined financial statements

1.1. Operations

Grupo NC Farma (Group) is a conglomerate of Brazilian companies operating in the pharmaceutical industry, and also a leader in the national pharmaceutical market. The main highlight of the Group is the entity EMS S.A.

1.2. Impacts of Covid-19 (Coronavirus) on the Group's business

On 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 have significant impacts on the amounts recognized in the Group's financial statements.

In Brazil, the Executive and Legislative Powers of the Federal Government published several regulations to prevent and curb the pandemic, as well as to mitigate its impacts on the economy, especially Legislative Decree No. 6, published on March 20, 2020, to declare a state of calamity. State and local governments have also published several regulations seeking to restrict the free movement of people and commercial and service activities, in addition to enabling emergency investments in the health care area.

The Group's operations have not been significantly impacted by the Covid-19 pandemic to date. The Group's operating segment is considered essential and, accordingly, the operations have not been interrupted throughout the year.

Inventory levels remain regular, and its internal process has the ability to keep the output capacity within expectations. As for receivables, the pharmaceutical industry does not currently experience an increase in default levels because of the pandemic. Accordingly, there was no extension of due dates, thus keeping the cash flow in line with the Group's strategy.

Considering that the development and impacts of the outbreak cannot be anticipated, it is currently impracticable to estimate the financial impact of the outbreak on estimated revenue and cash flows from operations, or the recoverable amount of the CGU.

Management continuously assesses the impact of the outbreak on the Group's operations and financial position for the purpose of implementing appropriate measures to mitigate the impacts of the outbreak on operations and on the financial statements. By the date of authorization for issuing these financial statements, the following main measures had been taken, including those of a social nature:

1. Operations and basis of preparation of the combined financial statements (Continued)

1.2. Impacts of Covid-19 (Coronavirus) on the Group's business (Continued)

- Rescheduling of contracts with domestic and foreign suppliers in order to align the acquisition of inputs for production with expectations relating to the future demand for the Group's products, considering the current outbreak scenario, and to extend payment terms.
- Focus on the production of Hydroxychloride Sulphate, in view of the expected increase in demand for this product in the current scenario.
- Implementation of temporary or permanent measures regarding the staff, in order to reduce payroll expenses in the medium term, such as the suspension of new hires.
- Measures to prevent infection among employees, such as home office, removal of those who are more exposed to the risk group, such as pregnant women, employees aged 60+, etc.
- In-house production of alcohol-based hand sanitizers to be offered to all employees.
- Donation of PPE, equipment, food, medicine and financial resources, totaling R$15,000 in donations, to help fight Covid-19.
- Discussion of the terms of the Group's loans and financing arrangements with financial institutions and payments with suppliers, to mitigate any liquidity risks.

1.3. Basis of preparation of the combined financial statements

The combined financial statements were prepared in accordance with the accounting practices adopted in Brazil.

The combined financial statements of Grupo NC Farma are being presented for the only purpose of providing, in a single set of financial statements, information relating to all of the Grupo NC Farma 's activities considered significant by Management, regardless of its type of organization and legal form. Therefore, these combined financial statements do not represent the individual or consolidated financial statements of an entity and its subsidiaries and should not be considered for the purpose of calculation of dividends, taxes or for other corporate purposes, nor can they be used as an indication of financial performance that could be obtained if the entities included in the combination had operated as a single independent entity or as an indication of the results of operations of those entities for any future periods.

1. Operations and basis of preparation of the combined financial statements (Continued)

1.3. Basis of preparation of the combined financial statements (Continued)

For purposes of presenting the combined financial statements of Grupo NC Farma , the following procedures were performed:

a) Assessment of the combination and entities considered in the combination

The combined entities were under common control throughout the period of the combined financial statements. The assessment of the combination was based on the definition of control contained in Accounting Pronouncement CPC 36 (R3) – Consolidated Financial Statements.

The following entities are considered in the preparation of the combined financial statements:

- EMS S.A. - EMS S.A. (“EMS”) was incorporated in 1964 as an unlisted company, and, together with its subsidiaries, is engaged in manufacturing, trading, importing and exporting their own and third parties’ products, pharmaceuticals, allopathic drugs, dieting foods, pharmaceutical inputs and drugs. The registered office of EMS is located in the city of Hortolândia, state of São Paulo.
- Concessionária Paulista de Medicamentos S/A (CPM) - Located in Américo Brasiliense/SP, it manages and maintains Indústria Farmacêutica de Américo Brasiliense (IFAB) owned by Fundação para o Remédio Popular ("FURP"), reporting to the São Paulo State Secretariat ("SESSP"), under a concession. The objective was to expand the Government’s output capacity for generic drugs. The concession period is 15 years and production began on August 1, 2015. The Concession Agreement has been partially suspended since January 1, 2020, with the activities thereunder being limited to the services that are necessary for property security and monitoring, cleaning and maintenance. During the partial standstill, CPM’s costs have been compensated in the form of reimbursement of expenses while the terms for contract termination are being discussed. These terms will consider the payment of amounts already billed, totaling R$74,451 as at December 31, 2020, relating to medicines supplied to SESSP, and the final decommissioning activities. The payment of amounts due is insured in a Pledge Agreement entered into by CPM, FURP and Companhia Paulista de Parcerias (CPP, a state-owned company responsible for monitoring the Public Private Partnerships entered into in the State of São Paulo), and operated by Banco do Brasil SA, consisting in the pledge of shares of Fundo BB CPP Projetos for a total equivalent to six (6) monthly installments of the consideration defined in the Concession Agreement.

1. Operations and basis of preparation of the combined financial statements (Continued)

1.3. Basis of preparation of the combined financial statements (Continued)

a) <u>Assessment of the combination and entities considered in the combination (Continued)</u>

- EMS Sigma Pharma Ltda. (EMS Sigma) - Located in Hortolândia/SP, it operates in the manufacture and trade of branded generic drugs nationwide. It currently has only one production line, and the other products sold are purchased from the parent company for resale. As of November 2018, EMS Sigma became a packer for products manufactured by Novamed/AM under the Regime Especial de Industrialização por Encomenda (Manufacture to Order) a special manufacturing regime obtained in the State of São Paulo and approved by the Government of Amazonas.
- Legrand Pharma Indústria Farmacêutica Ltda. (Legrand) - Located in Hortolândia/SP, it operates in the manufacture and trade of ordinary generic drugs nationwide. It currently has only one production line, and the other products sold are purchased from the parent company for resale.
- Luxbiotech Farmacêutica Ltda. (Luxbiotech) - Located in Hortolândia/SP, it operates in the manufacture and trade of cutting-edge dermo cosmetics nationwide.
- Monteresearch SRL (Monteresearch) - Located in Milan, Italy, it is a pharmaceutical research laboratory, specializing in the development of drug delivery systems, i.e., engineered technologies that enable the development of new formulations for the targeted delivery and controlled release of a drug in the body, as required by doctors and patients, and even in safer concentrations. The company also has a 25% interest in Luxembourg-based Globe Pharma S.A.R.L., whose corporate purpose is to hold investments in other entities.
- Rio Bio Pharmaceuticals, LLC (Rio Bio) - Located in the United States, its corporate purpose is the development of pharmaceutical activities, which may include, among others, the manufacture, sale, import and export of its own and third parties' products pharmaceutical products and inputs; the provision of administrative, technical and documental consulting/assistance services with or without technology transfer; and holding interests in joint ventures or other entities as a member, shareholder or partner.

1. Operations and basis of preparation of the combined financial statements (Continued)

1.3. Basis of preparation of the combined financial statements (Continued)

a) Assessment of the combination and entities considered in the combination (Continued)

- Germed Farmacêutica Ltda (Germed) - a company established in 1964 to manufacture, trade, import and export own and third party's pharmaceutical, allopathic, homeopathic, veterinary, dental, diet food and hygiene products, toiletries, cosmetics, perfumes, household cleaning products, phytosanitary products, pharmaceutical ingredients, drugs and related products, antibiotic synthesis, fine and industrial chemicals. The company's registered office is at Rodovia Jornalista Francisco A. Proença, Km 08 - Hortolândia, São Paulo.
- Novamed Fabricação de Produtos Farmacêuticos Ltda. (Novamed) - a company established on August 4, 2010 to manufacture, trade, import and export own and third party's pharmaceutical products. The company's registered office is at Avenida Torquato Tapajós, nº 17,703 - Manaus - AM, where it started its operating activities in July 2014.
- Multilab Indústria e Comércio de Produtos Farmacêuticos Ltda. (Multilab) - an entity organized for the purpose of manufacturing and trading medicines, cosmetics, hygiene products and food products, both nationally and internationally. The company's registered office is at RS 401 KM 30, nº 1009, São Jeronimo - RS, CEP 96700-000. The company was acquired by the Grupo NC in 2018 through Novamed Fabricação de Produtos Farmacêuticos Ltda.
- Nova Química Farmacêutica S.A. (Nova Química) - a company established in 1994 to manufacture, trade, import and export own and third party's pharmaceutical, allopathic, diet food, pharmaceutical ingredients and drugs. Given the corporate restructuring strategy focused on Nova Química's operating segments, approval was given to merge the company's total net assets into Multilab Indústria e Comércio de Produtos Farmacêuticos Ltda. as a result of the synergy between brands, values and customers, aiming at market growth through a single portfolio. The merger is expected to be completed by the end of the first half of 2021.

(In thousands of reais, unless otherwise stated)

1. Operations and basis of preparation of the combined financial statements (Continued)

1.3. Basis of preparation of the combined financial statements (Continued)

a) Assessment of the combination and entities considered in the combination (Continued)

The combined entities hold interests in the following parties either directly or indirectly:

	2020										
Shareholders/unitholders (in number of shares/units of interest)	**EMS S.A (Consolidated)**	**Germed (Combined)**	**Novamed (Consolidated)**	**Multilab (Consolidated)**	**Nova Química (Combined)**	**CPM (Consolidated)**	**Monteresearch (Consolidated)**	**Rio Biopharmaceuticals (Consolidated)**	**EMS Sigma (Consolidated)**	**Legrand (Consolidated)**	**Luxbiotech (Consolidated)**
EMS S.A.	**-**	**-**	**-**	**-**	**-**	**64,205,000**	**90,000**	**3,308**	**7,662,451**	**136,464**	**97,516,851**
NC Participações S.A.	**19,800,000**	**-**	**-**	**-**	**-**	**400,000**	**-**	**-**	**77,398**	**1,379**	**206,158**
Germed Farmacêutica LDA.	**200,000**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Carlos Eduardo Sanchez	**-**	**-**	**29,036,250**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Novamed Fabricação de Produtos Farmacêuticos Ltda.	**-**	**-**	**-**	**685,213,744**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Leonardo Sanchez Secundino	**-**	**-**	**4,839,375**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Marcus Vinicius Sanchez Secundino	**-**	**-**	**4,839,375**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Saltmont Empreendimentos e Participações Ltda.	**-**	**5,239,097**	**-**	**-**	**49,500,002**	**-**	**-**	**-**	**-**	**-**	**-**
Saltriver Empreendimentos e Participações Ltda.	**-**	**5,033,644**	**-**	**-**	**8,250,000**	**-**	**-**	**-**	**-**	**-**	**-**
Global Energy Fundo de Investimento Participações	**-**	**-**	**-**	**-**	**8,250,000**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**20,000,000**	**10,272,741**	**38,715,000**	**685,213,744**	**66,000,002**	**64,605,000**	**90,000**	**3,308**	**7,739,849**	**137,843**	**97,723,009**

Grupo NC Farma

Notes to combined financial statements (Continued)
December 31, 2020 and 2019
(In thousands of reais, unless otherwise stated)

1. Operations and basis of preparation of the combined financial statements (Continued)

1.3. Basis of preparation of the combined financial statements (Continued)

a) Assessment of the combination and entities considered in the combination (Continued)

	2019										
Shareholders/unitholders (in number of shares/units of interest)	**EMS S.A (Consolidated)**	**Germed (Combined)**	**Novamed (Consolidated)**	**Multilab (Consolidated)**	**Nova Química (Combined)**	**CPM (Consolidated)**	**Monteresearch (Consolidated)**	**Rio Biopharmaceuticals (Consolidated)**	**EMS Sigma (Consolidated)**	**Legrand (Consolidated)**	**Luxbiotech (Consolidated)**
EMS S.A.	-	-	-	-	-	64,205,000	90,000	3,308	7,662,451	136,464	97,516,851
NC Participações S.A.	19,800,000	-	-	-	-	400,000	-	-	77,398	1,379	206,158
Germed Farmacêutica LDA.	200,000	-	-	-	-	-	-	-	-	-	-
Carlos Eduardo Sanchez	-	-	29,036,250	-	-	-	-	-	-	-	-
Novamed Fabricação de Produtos Farmacêuticos Ltda.	-	-	-	685,213,744	-	-	-	-	-	-	-
Leonardo Sanchez Secundino	-	-	4,839,375	-	-	-	-	-	-	-	-
Marcus Vinicius Sanchez Secundino	-	-	4,839,375	-	-	-	-	-	-	-	-
Saltmont Empreendimentos e Participações Ltda.	-	5,239,097	-	-	49,500,002	-	-	-	-	-	-
Saltriver Empreendimentos e Participações Ltda.	-	5,033,644	-	-	8,250,000	-	-	-	-	-	-
Global Energy Fundo de Investimento Participações	-	-	-	-	8,250,000	-	-	-	-	-	-
Total	20,000,000	10,272,741	38,715,000	685,213,744	66,000,002	64,605,000	90,000	3,308	7,739,849	137,843	97,723,009

(In thousands of reais, unless otherwise stated)

1. Operations and basis of preparation of the combined financial statements (Continued)

1.3. Basis of preparation of the combined financial statements (Continued)

a) Assessment of the combination and entities considered in the combination (Continued)

Summary financial information of each combined entity:

Statement of financial position - 2020	EMS S.A (Individual)	Germed	Novamed (individual)	Multilab	Nova Química	CPM	EMS Sigma	Legrand	Luxbiotech	Monteresearch SRL e Rio Bio Pharmaceuticals, LLC	Eliminations	Combined
Current assets	1,822,385	319,380	1,673,920	225,982	175,509	90,246	38,708	292,219	53,810	44,024	(1,499,654)	3,236,529
Noncurrent assets	1,604,351	111,527	507,486	52,824	69,551	(303)	105,706	23,284	3,552	67,301	(567,371)	1,977,908
Current liabilities	1,723,005	178,466	232,438	111,531	52,381	10,629	128,881	73,556	77,555	11,047	(1,420,676)	1,178,813
Noncurrent liabilities	610,991	53,060	46,189	12,517	7,253	659	5,818	9,660	10,858	-	(19,856)	737,149
Equity	1,092,740	199,381	1,902,779	154,758	185,426	78,655	9,715	232,287	(31,051)	100,278	(626,493)	3,298,475

Statement of profit and loss - 2020	EMS S.A (Individual)	Germed	Novamed (individual)	Multilab	Nova Química	CPM	EMS Sigma	Legrand	Luxbiotech	Monteresearch SRL e Rio Bio Pharmaceuticals, LLC	Eliminations	Combined
Net operating revenue	3,951,216	486,812	2,106,523	342,227	345,322	-	227,214	564,930	8,321	13,606	(3,061,428)	4,984,743
Cost of sales	(2,542,462)	(286,122)	(1,034,394)	(237,900)	(215,413)	(3,408)	(223,552)	(288,655)	(4,104)	(470)	3,076,454	(1,760,026)
Gross profit	**1,408,754**	**200,690**	**1,072,129**	**104,327**	**129,909**	**(3,408)**	**3,662**	**276,275**	**4,217**	**13,136**	**15,026**	**3,224,717**
Operating expenses	(1,159,361)	(70,230)	(3,947)	(17,534)	(45,810)	11,252	(1,805)	(92,433)	(62,151)	(26,589)	**(135,503)**	(1,604,111)
Finance income (costs), net	(82,965)	3,151	(17,698)	(1,322)	(261)	107	(255)	(1,232)	(67)	9	-	(100,533)
Income (loss) before taxes	**166,428**	**133,611**	**1,050,484**	**85,471**	**83,838**	**7,951**	**1,602**	**182,610**	**(58,001)**	**(13,444)**	**(120,477)**	**1,520,073**
Income and social contribution taxes	**(52,844)**	**(40,840)**	**(115,519)**	**(12,577)**	**(26,435)**	**-**	**(43)**	**(58,947)**	**35**	**2**	**-**	**(307,168)**
Net income for the year	**113,584**	**92,771**	**934,965**	**72,894**	**57,403**	**7,951**	**1,559**	**123,663**	**(57,966)**	**(13,442)**	**(120,477)**	**1,212,905**

(In thousands of reais, unless otherwise stated)

1. Operations and basis of preparation of the combined financial statements (Continued)

1.3. Basis of preparation of the combined financial statements (Continued)

a) Assessment of the combination and entities considered in the combination (Continued)

Statement of financial position - 2019	EMS (Individual)	Germed	Novamed (Individual)	Multilab	Nova Química	CPM	EMS Sigma	Legrand	Luxbiotech	Monteresearch e Rio Bio Pharmaceuticals	Eliminations	Combined
Current assets	1,852,049	510,139	1,224,328	111,056	254,426	86,143	249,129	290,812	48,360	19,702	(1,864,417)	2,781,727
Noncurrent assets	1,496,997	66,929	446,080	61,212	52,528	940	4,484	13,850	2,906	68,268	(371,824)	1,842,370
Current liabilities	(1,750,435)	(409,616)	(311,420)	(63,923)	(153,979)	(15,347)	(240,149)	(185,258)	(16,075)	(5,118)	1,769,115	(1,382,205)
Noncurrent liabilities	(441,505)	(60,842)	(40,996)	(26,482)	(11,718)	(1,031)	(5,309)	(10,780)	(8,277)	-	(7,747)	(614,687)
Equity	(1,157,106)	(106,610)	(1,317,992)	(81,863)	(141,257)	(70,705)	(8,155)	(108,624)	(26,914)	(82,852)	474,873	(2,627,205)

Statement of profit and loss - 2019	EMS (Individual)	Germed	Novamed (Individual)	Multilab	Nova Química	CPM	EMS Sigma	Legrand	Luxbiotech	Monteresearch e Rio Bio Pharmaceuticals	Eliminations	Combined
Net operating revenue	3,530,925	462,904	1,570,988	136,210	336,014	83,772	165,833	437,092	9,362	9,855	(2,404,778)	4,338,177
Cost of sales	(2,018,639)	(284,510)	(733,066)	(121,802)	(190,981)	(42,966)	(158,399)	(219,630)	(6,258)	(516)	2,367,341	(1,409,426)
Gross profit	1,512,286	178,394	837,922	14,408	145,033	40,806	7,434	217,462	3,104	9,339	(37,437)	2,928,751
Operating expenses	(1,021,947)	(62,289)	(30,905)	(8,212)	(42,607)	45,172	(4,021)	(79,705)	(48,785)	25,263	(161,881)	(1,389,917)
Finance income (costs), net	67,639	(5,086)	(11,709)	(1,003)	(323)	632	(140)	2,603	805	(9)	3	53,412
Income (loss) before taxes	557,978	111,019	795,308	5,193	102,103	86,610	3,273	140,360	(44,876)	34,593	(199,315)	1,592,246
Income and social contribution taxes	(140,862)	(37,226)	(78,164)	9,682	(34,279)	(45,526)	(871)	(47,153)	27	-	18,327	(356,045)
Net income for the year	417,116	73,793	717,144	14,875	67,824	41,084	2,402	93,207	(44,849)	34,593	(180,988)	1,236,201

1. Operations and basis of preparation of the combined financial statements (Continued)

1.3. Basis of preparation of the combined financial statements (Continued)

a) Assessment of the combination and entities considered in the combination (Continued)

Basis of preparation of the combined financial statements

The consolidation principles under CPC 36 were used for preparing the Group's combined financial statements, considering, but not limited to, the following procedures:

- All intra-group balances and transactions, as well as any unrealized revenues and expenses from intra-group transactions are fully eliminated in the combined financial statements.
- Uniform accounting practices are used for all of the combined entities.

The combined financial statements were authorized for issue by the Board of Directors on May 31, 2021. Only the shareholders/unitholders have the power to amend the financial statements after issuance.

All the relevant information specific to the financial statements, and only such information, is being disclosed and corresponds to the information used to manage the Company's operations.

The Group's the main accounting policies are detailed in Note 5.

2. Basis of preparation and statement of compliance

The combined financial statements were prepared and are presented in accordance with the accounting practices adopted in Brazil (BRGAAP), based on the accounting pronouncements, guidelines and interpretations issued by the Brazilian Financial Accounting Standard Board ("CPC").

The Group's the main accounting policies are detailed in Note 5.

All the relevant information specific to the financial statements, and only such information, is being disclosed and corresponds to the information used to manage the Company's operations.

3. Functional and presentation currency

The financial statements were prepared on a historical cost basis, except where otherwise required.

For further information on the measurement of these assets and liabilities, please refer to Note 5 - Significant accounting policies.

The Group's functional currency is the Brazilian Real (R$). The accompanying financial statements are stated in thousands of reais. All amounts were rounded to the nearest thousand, unless otherwise stated.

4. Use of estimates and judgments

The preparation of these financial statements requires management to make judgments and estimates that affect the application of the accounting policies and the reported amounts of assets and liabilities, revenues and expenses. Actual results may differ from those estimates.

Estimates and assumptions are reviewed on an ongoing basis. The effects of such reviews are recognized prospectively.

Disclosures of judgements, assumptions and estimation uncertainties as at December 31, 2020 and 2019 that have a significant risk of resulting in material adjustments in respect of assets and liabilities within the next financial year are included in the following notes:

Disclosures of judgements, assumptions and estimation uncertainties as at December 31, 2020 and 2019 that have a significant risk of resulting in material adjustments in respect of assets and liabilities within the next financial year are included in the following notes:

- Note 10 - measurement of expected credit loss on accounts receivable: key assumptions in determining the weighted average loss rate;
- Note 11 - recognition and measurement of provisions for inventories: key assumptions in determining losses on slow-moving or expired inventory items;
- Note 20 - recognition and measurement of provisions and litigation: key assumptions about the probability and magnitude of the outflow of resources; and
- Note 21.a - deferred income and social contribution taxes: determining whether it is probable that future taxable profit will be available, against which temporary differences may be used.

4. Use of estimates and judgments (Continued)

- Note 20 - ICMS tax benefits: The Group has ICMS tax incentives granted by the State Government of Brasília. The Federal Supreme Court (STF) issued decisions on Direct Actions for Unconstitutionality, declaring the unconstitutionality of several state laws that granted ICMS tax benefits without prior agreement between the States.

Although it does not have ICMS tax incentives judged by the STF, the Group has been monitoring, in tandem with its legal advisors, the status of this matter in the courts to determine potential impacts on its operations and related impacts on the financial statements. At this point, Management does not expect that this matter will have a material impact on the Group's financial statements.

i) <u>Fair value measurement</u>

A number of the Group's accounting policies and disclosures require financial and nonfinancial assets and liabilities to be measured at fair value.

In measuring the fair value of an asset or liability, the Group uses observable market inputs whenever these are available. The fair values are classified in different levels in the following hierarchy based on inputs used in valuation techniques:

- Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities.
- Level 2: inputs, other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices);
- Level 3: inputs for the asset or liability that are not based on market observable data (unobservable inputs).

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period in which the changes have occurred.

5. Significant accounting policies

The Group consistently applied the accounting policies described below to all years presented in the financial statements.

a) Foreign currency

i) *Transactions and balances in foreign currency*

The transactions in foreign currency are translated into reais using the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated and calculated in foreign currencies on the reporting date are retranslated into the functional currency at the exchange rate prevailing on that date. Exchange gain or loss on monetary items is the difference between amortized cost of the functional currency at the beginning of the period, adjusted for interest and effective payments during the year, and the amortized cost in foreign currency at the exchange rate prevailing at the end of the reporting period.

Foreign currency differences arising on retranslation are usually recognized in profit or loss.

ii) *Foreign operations*

Assets and liabilities from foreign operations are translated into Reais at the exchange rates prevailing at the reporting date. Income and expenses from foreign operations are translated into Reais using the exchange rates on the transaction dates.

Foreign currency differences are recognized in other comprehensive income and recorded in equity as cumulative translation adjustment (translation reserve). When a foreign operation is disposed of, so that the control, significant influence, or shared control cease to exist, the amounts accumulated in the foreign currency translation reserve related to that foreign operation are reclassified to income for the year as part of the disposal gain or loss. When the Group disposes of a portion of its interest in a subsidiary that includes a foreign operation but retains control, the related portion of the cumulative currency translation balance is reclassified to Equity attributable to noncontrolling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation, while maintaining significant influence or shared control, the respective proportion of the accumulated value is reclassified to the statement of profit and loss for the year.

5. Significant accounting policies (Continued)

b) Revenue from contracts with customers

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

- The customers obtain control of the products when they are delivered to and accepted at the customers' premises. Trade agreements signed with customers to leverage their sales are applied directly to the product sales invoices and recognized as a deduction from sales.
- Invoices are issued at that point in time and are usually payable within an average period of 90 days.
- Returned products are exchanged for new products or credit only, and there is no cash refund.
- Revenue is recognized net of taxes, actual returns and other rebates.

i) *Variable consideration*

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. Some contracts for the sale of goods and products provide customers with a right of return and volume rebates. The rights of return and volume rebates give rise to variable consideration. The Group provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer.

ii) *Trade agreements*

The Group recognizes this revenue net of trade agreements which Management believes meet the criteria in item 70 of CPC 47, as it refers to consideration payable to a customer.

c) Finance income and finance costs

Finance income includes income from short-term bank deposits, interest on trade notes receivable, discounts obtained, exchange differences, and other finance income. Interest income is recognized in the statement of profit or loss using the effective interest method.

5. Significant accounting policies (Continued)

c) Finance income and finance costs (Continued)

Finance costs include interest payable on loans, exchange differences, discounts granted and other finance costs.

d) Employee benefits

i) *Short-term benefits to employees*

Obligations arising from short-term employee benefits are measured on an undiscounted basis and are incurred as expenses as the related service is provided. A liability is recognized for the expected payments if the Group has a present legal or constructive obligation to pay for employee benefits as a result of past services rendered by the employee, and when a reliable estimate can be made for the obligation.

ii) *Profit sharing*

The Group recognizes a liability and a profit sharing expense where contractually obliged or where there is a past practice that has created a constructive obligation.

e) Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

The Group has a line of credit government grant under the Federal District Fostering Program for the Sustainable Integrated Economic Development (PRÓ-DF), granted in the form of a subsidized loan obtained from Banco Regional de Brasília (BRB) (Note 18). The economic benefit obtained is accounted for as deferred revenue and recorded in the statement of profit and loss for equal amounts as allowed by the Pro-DF program for the settlement of payments and regularization of the grant.

The Group considers the terms, conditions and obligations it must comply with when identifying the costs vis-à-vis the economic benefit obtained.

5. Significant accounting policies (Continued)

e) Government grants (Continued)

The effects of this calculation were recorded in the statement of profit and loss for the year, under "Deductions from revenue," since the subsidized loan originates from a credit operation on the State Value Added Tax (ICMS) generated on imports. Interest incurred over the life of the loan agreements is recorded in finance costs. The deferred revenue will be recovered as soon as the Company obtains authorization to settle some remaining installment payments.

Because of its activities in the pharmaceutical industry in the State of São Paulo, the Group is a beneficiary of Supplementary Law No. 160. Under applicable law, the Group benefits from ICMS tax exemption on the sale of certain products.

The Group has a government grant represented by the right to exclude from the IRPJ and CSLL tax bases those gains arising from the ICMS tax benefit granted by the State of São Paulo under Supplementary Law No. 160. In 2020, based on the opinion of its legal advisors, the Company exercised the right of exclusion.

State Value Added Tax (ICMS)

The combined entity Novamed has a government grant in the form of a tax benefit arising from Law No. 2826/2003, which regulates the policy on tax and other than tax incentives in the State of Amazonas.

The tax incentive aims to fully exempt the payment ICMS (State VAT) on the sale/shipment of some of the Company's products. The benefit was approved by Decree No. 33817, of July 30, 2013.

Income and social contribution taxes

The combined entity Novamed has a government grant in the form of a 75% decrease in income tax for part of the Company's operations, including non-refundable additional amounts in accordance with Ordinance No. 283/13.

In compliance with Law No. 11638/07 and CPC 07, the amount referring to the SUDENE grant was recognized in the statement of profit and loss, matched with income tax expense, then was transferred to the Tax Incentive Reserve account, and cannot be distributed to shareholders/unitholders.

5. Significant accounting policies (Continued)

e) Government grants (Continued)

Income and social contribution taxes (Continued)

The Company is also entitled to the tax benefit established by the Federal Government that allows beneficiary entities to deposit at Banco da Amazônia the amount corresponding to 30% of income tax due calculated on profits from activities under a favorable tax treatment (lucro da exploração), plus another portion of own resources relating to 50% (fifty percent) of the 30% (thirty percent) of the IRPJ amount due.

Special taxation regime

To consolidate the Group's strategies within the Grupo NC, approval was given to the Special Taxation Regime granted by the São Paulo State Finance Department to EMS Sigma Pharma in April 2018, under No. 1474/2015, and approved by the State Finance Department of Amazonas through declaratory act No. 104/2018 - DETRI/SER/SEFAZ.

The purpose of the Special Taxation Regime is to authorize Ems Sigma Pharma, once it has completed the industrialization process (packaging) as ordered by the manufacturer Novamed Fabricação de Produtos Farmaceuticos Ltda., to ship the products, on behalf of the ordering party, directly to a bonded warehouse in São Paulo using a procedure similar to that defined in article 408 of the ICMS Regulation of the State of São Paulo (RICMS/SP).

f) Current and deferred income and social contribution taxes

Taxation on income comprises current and deferred income tax and social contribution tax. Income tax (IRPJ) is calculated on taxable profit at a 15% rate, plus an additional 10% on income in excess of R$240 for a period of 12 months; social contribution tax (CSLL) is computed on taxable profit at 9%. IRPJ and CSLL tax losses may be offset on an annual basis, limited however to 30% of taxable profit.

Tax expenses for the period comprise current and deferred income and social contribution taxes. Income and social contribution taxes are recognized in the statement of profit and loss, except to the extent that they refer to items directly recognized in equity, or in comprehensive income, if any.

5. Significant accounting policies (Continued)

f) Current and deferred income and social contribution taxes (Continued)

Current and deferred income and social contribution taxes are determined based on the tax laws enacted or substantively enacted at reporting date when the Group generates taxable profit. Management periodically evaluates positions taken in the tax returns filed by the Group with respect to situations in which applicable tax regulations are subject to interpretation; and records provisions where appropriate, based on the amounts expected to be paid to the tax authorities.

Current income and social contribution taxes are stated net in liabilities when there are amounts payable, or in assets when prepaid taxes exceed total due as at the reporting date

Deferred income and social contribution taxes are recognized using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income and social contribution tax assets are recognized to the extent that it is probable that taxable profit will be available against which the temporary differences can be utilized.

Deferred income and social contribution tax assets and liabilities are stated at the net amount in the statement of financial position if there is a legally enforceable right and the intention to settle them when computing current taxes usually relating to the same legal entity and the same taxation authority.

The combined entity Novamed is entitled to a reduction in the payment of income and social contribution taxes for part of its operations as mentioned in note 8.e.

i) *Current income and social contribution tax expenses*

Current tax expenses are the expected taxes payable or receivable on the taxable profit or loss for the year, and any adjustment to taxes payable in respect of previous years. The amount of current taxes payable or receivable is recognized in the statement of financial position as a tax asset or liability using the best estimate of the expected amount of taxes to be paid or received that reflects the uncertainties related to their calculation, if any. It is measured based on tax rates enacted as at the reporting date. Current tax assets and liabilities are offset only if certain criteria are met.

5. Significant accounting policies (Continued)

f) Current and deferred income and social contribution taxes (Continued)

ii) *Impacts on IRPJ and CSLL tax bases arising from the benefit granted by the State Government of São Paulo*

As mentioned in note 8.e, because of its activities in the pharmaceutical industry in the State of São Paulo, the Group is exempt from ICMS on the sale of certain products.

For purposes of computing corporate income tax (IRPJ) and social contribution tax on net profits (CSLL), as defined in article 30 of Law No. 12973/2014, the government grants offered to encourage the implementation or expansion of business ventures and the donations made by the government will not be considered for deriving taxable profits, provided that some requirements set out in this article are met.

Thus, the amounts recorded by the Group in 2019 in connection with government grants should not impact the IRPJ and CSLL tax bases, which is why they were excluded therefrom.

iii) *Deferred income and social contribution tax expenses*

Deferred income and social contribution taxes are recognized on temporary differences between the carrying amount of assets and liabilities for accounting purposes and the amounts used for tax purposes. Changes in deferred tax assets and liabilities for the year are recognized as deferred income and social contribution tax expenses.

Deferred tax assets are recognized on deductible temporary differences to the extent that it is probable that taxable profit will be available against which they will utilized. Future taxable profit is determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to fully recognize a deferred tax asset, future taxable profit, adjusted for reversals of existing temporary differences, will be considered based on the Group’s business plans.

Deferred income and social contribution tax assets and liabilities are stated at the net amount in the statement of financial position if there is a legally enforceable right and the intention to settle them when computing current taxes usually relating to the same legal entity and the same taxation authority.

5. Significant accounting policies (Continued)

f) Current and deferred income and social contribution taxes (Continued)

iv) *ICPC 22 - Uncertainty over Income Tax Treatments*

This Interpretation clarifies how to apply the recognition and measurement requirements 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 profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined based on this interpretation. This interpretation became effective on January 1, 2019.

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

g) Inventories

Inventories are stated at the lower of cost or net realizable value. Inventories are valued using the moving weighted average method. The cost of finished products and work-in-process comprise design costs, raw material, direct labor, other direct costs and overall production-related expenses (considering the normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

The provision for inventory losses is recorded considering the criteria disclosed in Note 8m.

h) Property, plant and equipment

Land and buildings mainly comprise plants and offices. Property, plant and equipment are measured at cost, less accumulated depreciation. Such cost includes expenses directly attributable to the acquisition of assets.

Subsequent costs are included in an asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company, and the cost of the item can be measured reliably. The book value of replaced items or parts is written off. All other repair and maintenance costs are matched with profit and loss accounts, as incurred.

(In thousands of reais, unless otherwise stated)

5. Significant accounting policies (Continued)

h) Property, plant and equipment (Continued)

Land is not subject to depreciation. Depreciation of other assets is calculated using the straight-line method considering the costs and residual values throughout the estimated useful life of the assets, as follows:

	Years
Aircraft	15
Improvements	30
Buildings	60
Machinery	3-25
Vehicles	5
Furniture, fixtures, and equipment	5-25

The residual values and useful lives of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss in Other operating income (expenses), net.

i) Leases

As of January 1, 2019, the Group has applied CPC 06(R2), which introduces a single lease model that eliminates the classification of leases as either operating or finance leases. The main objective is to define whether the contract contains a lease or the contract is a service provision. After this has been defined, if a contract contains a lease, it must be recorded in assets, subjected to depreciation, and recorded in liabilities, including financial charges, using the cumulative effect method, with initial application of the standard on the initial date (i.e., January 1, 2019). Consequently, the Group did not apply the requirements of CPC 06 (R2) to the comparative period presented.

Definition of a lease

Previously, the Group determined, at inception of a contract, whether it was, or contained, a lease in accordance with ICPC 03 Supplementary Aspects of Lease Transactions. The Group now assesses whether a contract is or contains a lease based on the definition of a lease described in Note 5.

5. Significant accounting policies (Continued)

i) Leases (Continued)

Definition of a lease(Continued)

In the transition to CPC 06(R2), the Group elected to apply the practical expedient regarding the definition of a 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 were not reassessed to determine whether they contained a lease in accordance with CPC 06(R2). Accordingly, the definition of a lease under CPC 06(R2) was only applied to contracts entered into or modified on or after January 1, 2019.

a) *As a lessee*

As a lessee, the Group leases various assets, including property, manufacturing equipment and IT equipment. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease significantly transferred all the risks and rewards incidental to ownership of an underlying asset. In accordance with CPC 06(R2), the Group recognizes right-of-use assets and lease liabilities for most of these leases - i.e., these leases are shown on the face of the statement of financial position.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative standalone price.

However, for property leases, the Group has elected not to separate the non-lease components, and instead account for the lease and the associated non-lease components as a single lease component.

i) Leases classified as operating leases in accordance with CPC 06 (R1)

Previously, the Group classified property leases as operating leases pursuant to CPC 06 (R1). On transition, the lease liabilities for these leases (previously classified as operating leases) were measured at the present value of the remaining lease payments, discounted using the Group’s incremental borrowing rate at January 1, 2019. The right-of-use assets are measured at:

5. Significant accounting policies (Continued)

i) <u>Leases (Continued)</u>

Definition of a lease(Continued)

a) *<u>As a lessee (Continued)</u>*

i) Leases classified as operating leases in accordance with CPC 06 (R1) (Continued)

- Their carrying amount as if CPC 06(R2) had been applied since the commencement date, but discounted using the Group's incremental borrowing rate at the date of initial application: The Group applied this approach to its greater property lease; or
- An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: the Group applied this approach to all other leases.

The Group tested its right-of-use assets for impairment on the transition date and concluded that there is no indication that the right-of-use assets may be impaired.

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

- Did not recognize right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- Did not recognize right-of-use assets and liabilities for leases of low-value assets (e.g., IT equipment);
- Excluded initial direct costs from the measurement of right-of-use assets at the date of initial application; and
- Used the retrospective approach when determining the lease term.

ii) Leases classified as finance leases in accordance with CPC 06 (R1)

As at December 31, 2018, the Group did not have leases classified as finance leases in accordance with CPC 06(R1).

5. Significant accounting policies (Continued)

i) Leases (Continued)

Definition of a lease(Continued)

b) *As a lessor*

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

The Group is not required to make adjustments on transition to CPC 06(R2) for leases in which it is a lessor, except for subleases.

The Group has subleased some of its properties. Pursuant to CPC 06(R1), lease and sub-lease agreements were classified as operating leases. On transition to CPC 06(R2), the right-of-use assets recognized from the leases are presented in investment properties and measured at fair value as at that date. The Group assessed the classification of sublease agreements with reference to the right-of-use assets, rather than the underlying asset, and concluded that they are operating leases in accordance with CPC 06(R2).

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

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

c) *Impact on financial statements*

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

- Recognition of lease liabilities at the date of initial application for leases previously classified as operating leases. The lease liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate, grouped by nature of the asset, region and contractual term; and

5. Significant accounting policies (Continued)

i) Leases (Continued)

Definition of a lease(Continued)

c) *Impact on financial statements (Continued)*

- Recognition of right-of-use assets at the date of initial application for leases previously classified as operating leases. Right of use assets were measured at an amount equal to the lease liabilities adjusted by the amount of any prepaid or accrued lease payments related to the lease recognized in the 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 information as at January 1, 2019:

In thousands of reais	**January 1, 2019**
Right-of-use assets - property, plant and equipment	140,364
Right-of-use assets - intangible assets	10,356
Right-of-use assets - subleased assets (*)	1,065
Lease liabilities	(151,785)

(*) The right of use assets are deducted from the amounts subleased to group companies. These amounts are reclassified to accounts receivable from related parties.

In thousands of reais	**December 31, 2019**
Right-of-use assets - property, plant and equipment	123,959
Lease liabilities	(136,615)
Deferred taxes	(1,926)

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate as of January 1, 2019. The discount rates are shown below:

	Contracts - 2019	**Contracts - 2020**
Within 1 year	8.30%	**4.81%**
1-2 years	8.46%	**5.40%**
2-5 years	9.67%	**6.89%**
5-10 years	10.72%	**8.19%**
10-20 years	11.35%	**9.19%**
After 20 years	11.35%	**9.19%**

5. Significant accounting policies (Continued)

j) Intangible assets and goodwill

Goodwill

Goodwill is measured at cost less any accumulated impairment losses.

Research and development

Research costs are expensed as incurred. Development expenditures are capitalized only if the development costs can be measured reliably, if the product or process is technically and commercially viable, if the future economic benefits are probable, and if the Company has the intention and sufficient resources to complete the asset's development and use it or sell it. All other development costs are expenses as incurred. After initial recognition, capitalized development costs are measured at cost, less accumulated amortization and any impairment losses.

Other intangible assets

Other intangible assets that are acquired by the Company and have a finite life are measured at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditures

Subsequent expenditures are only capitalized when these increase the future economic benefits embedded in the specific asset to which they are related. All other expenditures, including costs relating to internally generated goodwill and trademarks and patents, are expensed as incurred.

Amortization

Amortization is calculated using the straight-line method based on the estimated useful lives of the items, net of estimated residual values. Amortization is generally recognized in profit or loss. Goodwill is not amortized.

5. Significant accounting policies (Continued)

j) Intangible assets and goodwill (Continued)

Amortization (Continued)

The estimated useful lives are:

Trademarks and patents	5-8 years
Software	5 years
Capitalized development costs	5 years
Customer Portfolio	15 years

The methods of amortization, useful lives and residual values are reviewed at each financial year end and adjusted prospectively, if appropriate.

Software

Software licenses are capitalized based on software acquisition costs and further expenses incurred to prepare it for use. These costs are amortized over the estimated useful life of software (three to five years).

Software maintenance costs are recognized as expenses, when incurred.

k) Financial instruments

i) *Initial recognition and measurement*

Trade accounts receivable and issued debt securities are initially recognized upon origination. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (with the exception of trade receivables that do not contain a significant financing component) or a financial liability is initially recognized at fair value, plus, in the case of a financial asset not at fair value through profit or loss, directly attributable transaction costs. Trade receivables that do not contain a significant financing component are initially measured at the transaction price.

5. Significant accounting policies (Continued)

k) Financial instruments (Continued)

ii) *Subsequent classification and measurement*

Financial assets

Financial assets are classified, at initial recognition, as measured at amortized cost; fair value through other comprehensive income (OCI); or fair value through profit or loss.

Financial assets are not reclassified after initial recognition unless the Group changes its business model to one that manages financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in business model.

A financial asset should be measured at amortized cost if both of the following conditions are met, and it is not designated as measured at fair value through profit or loss:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost or fair value through other comprehensive income, as described above, are measured at fair value through profit or loss.

5. Significant accounting policies (Continued)

k) Financial instruments (Continued)

ii) *Subsequent classification and measurement (Continued)*

Financial assets - business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice.
- These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Group's management; and
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at fair value through profit or loss.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

5. Significant accounting policies (Continued)

k) Financial instruments (Continued)

ii) *Subsequent classification and measurement (Continued)*

Financial assets - business model assessment (Continued)

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

- Contingent events that would change the amount or timing of cash flows;
- Terms that may adjust the contractual coupon rate, including variable-rate features;
- Prepayment and extension features; and
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

Financial assets - subsequent measurement and gains and losses

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

5. Significant accounting policies (Continued)

k) Financial instruments (Continued)

ii) *Subsequent classification and measurement (Continued)*

Financial liabilities - Classification, subsequent measurement and gains and losses

Financial liabilities were classified as measured at amortized cost or FVTPL. A financial liability is classified as measured at fair value through profit or loss if it is held for trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on 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 from the financial asset expire, or the Group transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

If the Group enters into transactions whereby it transfers assets recognized in the statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets, the financial assets are not derecognized.

Financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognizes a financial liability when its 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.

5. Significant accounting policies (Continued)

k) Financial instruments (Continued)

iii) *Derecognition (Continued)*

Financial liabilities (Continued)

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

iv) *Offsetting*

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

v) *Derivative financial instruments*

The Group does not engage in transactions involving derivative financial instruments.

l) Impairment

i) *Non-derivative financial assets*

The Group recognizes an allowance for expected credit losses on financial assets measured at amortized cost. Expected credit losses are a probability-weighted estimate of credit losses. The Group measures the allowance for losses on trade accounts receivable at an amount 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 in calculating expected credit losses. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime expected credit losses at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

5. Significant accounting policies (Continued)

l) <u>Impairment (Continued)</u>

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

The Group considers a financial asset in default when contractual payments are 120 days past due. 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 outstanding contractual amounts in full 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 that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

ii) *Non-financial assets*

At each reporting date, the carrying amount of nonfinancial assets (other than inventories and deferred tax assets) are reviewed to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into cash-generating units (CGUs), i.e., the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units (CGUs).

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount.

5. Significant accounting policies (Continued)

m) Provisions

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

Please find below the criteria for the recognition of the major provisions:

Provision for impairment losses on receivables (Note 10)

The provision for impairment losses on receivables is recognized in accordance with the scope of the CPC 48 impairment model, as described in Note 8(k) - Impairment of financial assets.

Accounts receivable from related parties are not included in the provision.

Provision for inventory losses (Note 11)

The provision is recognized based on the internal policy defined by the Group, which takes into account the losses on realization of inventories. These losses may refer to drugs that have expired or will expire within 180 days and products used in research and development.

Provision for losses on legal proceedings (Note 22)

The Group is a party to legal and administrative proceedings. Based on the assessment of internal and external advisors, the provisions are recorded for all risks referring to legal proceedings representing probable losses and are estimated with a certain degree of reliability.

Assessment of the likelihood of loss includes an analysis of available evidence, the hierarchy of laws, available case law, the most recent court decisions and their relevance in the legal system.

n) Distribution of dividends and interest on equity

Dividend distribution to the Group's shareholders is recognized as a liability in the Group's year-end financial statements, according to the Group's Bylaws. Any amount that exceeds the minimum mandatory dividend is accrued on the date it is approved by the shareholders.

5. Significant accounting policies (Continued)

o) Financial guarantees

A financial guarantee is a contract that requires the issuer (Group) to make specified payments to reimburse the holder of the financial guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognized at fair value and then amortized over the life of the financial guarantee. Subsequent to initial recognition, the financial guarantee liability is measured at the higher of the amortized value and the present value of any expected payment (when a payment under the guarantee has become probable).

As at December 31, 2020 and 2019, the Group did not recognize the fair values of its financial guarantees as they were considered to have a low credit risk because of the issuer, or the Company's shareholders are jointly liable for these guarantees and undertake the credit risk if the creditor does not meet the commitments. The operations in which the Group acts as a guarantor are detailed in Note 7 - Financial risk management.

6. New standards and interpretations

6.1. New or revised standards adopted for the first time in 2020

The Group adopted for the first time certain standards and amendments to standards effective for annual periods beginning on or after January 1, 2020. The Group decided not to early adopt any standards, interpretations or amendments that have been issued but are not yet effective.

Amendments to CPC 15 (R1): Definition of a business

The amendment to CPC 15 (R1) in January 2020 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together have the ability to contribute to the creation of outputs. Moreover, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the Group's combined financial statements, but may impact future periods should the Group enter into any business combinations.

6. New standards and interpretations (Continued)

6.1. New or revised standards adopted for the first time in 2020 (Continued)

Amendments to CPC 38, CPC 40 (R1) and CPC 48: Interest Rate Benchmark Reform

The amendments to CPC 38 and CPC 48 provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the Group’s combined financial statements as it does not have any interest rate hedge relationships.

Amendments to CPC 26 (R1) and CPC 23: Definition of material misstatement

The amendments provide a new definition of material that states, “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the Group’s combined financial statements, nor is there expected to be any future impact to the Group.

Review of CPC 00 (R2): Conceptual Framework for Financial Reporting

The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the Group’s combined financial statements.

Amendments to CPC 06 (R2): Covid-19 Related Rent Concessions

The amendments provide relief to lessees from applying CPC 06 (R2) guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic.

6. New standards and interpretations (Continued)

6.1. New or revised standards adopted for the first time in 2020 (Continued)

Amendments to CPC 06 (R2): Covid-19 Related Rent Concessions (Continued)

As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under CPC 06 (R2), if the change were not a lease modification. This amendment had no impact on the Group's combined financial statements.

6.2. Standards issued but not yet effective

The new and amended standards and interpretations issued but not yet effective by the date of the Group's financial statements are described below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 17 - Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (a standard not issued in Brazil by CPC yet, but which will be codified as CPC 50 Insurance Contracts and will replace CPC 11 Insurance Contracts), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 (CPC 50) will replace IFRS 4 Insurance Contracts (CPC 11) that was issued in 2005.

IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers.

In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

6. New standards and interpretations (Continued)

6.2. Standards issued but not yet in force (Continued)

IFRS 17 - Insurance Contracts (Continued)

A specific adaptation for contracts with direct participation features (the variable fee approach).

- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after January 1, 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

Amendments to IAS 1: Classification of liabilities as current or noncurrent

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1, equivalent to CPC 26, to specify the requirements for classifying liabilities as current or noncurrent. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

7. Financial risk management

The Group is exposed to the following risks arising from the use of financial instruments:

- Market risk;
- Currency risk;
- Credit risk;
- Liquidity risk; and
- Operational risk.

a) Overview

The risk management policies are established in order to identify and assess the risks faced by the Group and its subsidiaries, to set appropriate limits and risk controls, and to monitor risks and adherence to limits. These risk management systems and policies are regularly reviewed to reflect changes in market conditions and in the Group's activities.

Risks are managed by the Group's central treasury function, based on the policies approved by the Board of Directors. The Group's Treasury Department identifies, evaluates and hedges the entities against any financial risks in cooperation with the Group's operational units.

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

b) Market risk

Market risk is the risk that changes in market prices - such as foreign currency and interest rates - will affect the Group's income or the value of its financial instruments. The purpose of market risk management is to manage and control exposures to market risks within acceptable standards while optimizing returns.

The Group uses derivatives to manage market risks in connection with some transactions. All of the transactions are performed under the guidelines established by Management.

As at December 31, 2020 and 2019, the Group had no outstanding derivative transactions in its financial statements.

(In thousands of reais, unless otherwise stated)

7. Financial risk management (Continued)

b) Market risk (Continued)

i) *Currency risk*

The Group operates internationally and is exposed to currency risk arising from exposure to certain currencies, substantially to the US dollar (USD). Currency risk arises from transactions with foreign suppliers and customers.

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

The exposure to foreign currency risk (net) is shown below:

	2020			2019		
	USD	**Euro**	**Reais**	**USD**	**Euro**	**Reais**
Trade accounts receivable (Note 10)	**893**	**1,332**	**19,880**	1,063	632	9,186
Trade accounts payable (Note 17)	**(47,717)**	**(10,167)**	**(316,293)**	(25,816)	-	(104,425)
Lease liabilities (Note 14)	**(46,724)**	**-**	**(242,823)**	(47,791)	-	(192,184)
Net exposure	**(93,548)**	**(8,835)**	**(539,236)**	(72,544)	632	(287,423)

Sensitivity analysis - currency risk

For purposes of sensitivity analysis of market risks, the Group analyzes both asset and liability positions indexed to foreign currency.

For the sensitivity analysis of transactions indexed to foreign currency, Management adopted the related carrying amounts as the probable scenario. As a reference, the other scenarios considered the devaluation and appreciation of the exchange rate used to calculate the amounts stated in the accounting records. The probable scenario considered an appreciation and devaluation of the real by 25% and 50%, respectively.

The methodology for deriving the figures shown in the table consisted of replacing the closing exchange rate used for accounting purposes with the stressed rates according to the scenarios below. This table shows the potential impacts on profit and loss considering the scenarios adopted for these transactions:

(In thousands of reais, unless otherwise stated)

7. Financial risk management (Continued)

b) Market risk (Continued)

i) *Currency risk (Continued)*

Sensitivity analysis - currency risk (Continued)

Risk	Type	Exposure in foreign currency	Original exposure (R$)	Effective rate - 12/31/2020	Probable	25% appreciation		50% appreciation	
					Amount	%	Amount	%	Amount
Increase in USD	Trade accounts receivable	893	5,753	5.20	(883)	6.50	45	7.80	1,205
Increase in EUR	Trade accounts receivable	1,332	14,127	6.38	(5,234)	7.97	(3,508)	9.57	(1,384)
Increase in USD	Trade accounts payable	(47,717)	(251,232)	5.20	1,735	6.50	(60,252)	7.80	(122,239)
Increase in EUR	Trade accounts payable	(10,167)	(65,061)	6.38	220	7.97	(15,992)	9.57	(32,202)
Increase in USD	Finance Lease	(46,724)	(242,823)	5.20	12	6.50	(60,691)	7.80	(121,394)
		(102,383)	(539,236)		(4,150)		(140,398)		(276,014)

Risk	Type	Exposure in foreign currency	Original exposure (R$)	Effective rate - 12/31/2020	Probable	25% devaluation		50% devaluation	
					Amount	%	Amount	%	Amount
Decrease in USD	Trade accounts receivable	893	5,753	5.20	(883)	3.90	(2,275)	2.60	(3,434)
Decrease in EUR	Trade accounts receivable	1,332	14,127	6.38	(5,234)	4.78	(7,756)	3.19	(9,880)
Decrease in USD	Trade accounts payable	(47,717)	(251,232)	5.20	1,735	3.90	63,722	2.60	125,710
Decrease in Euro	Trade accounts payable	(10,167)	(65,061)	6.38	220	4.78	16,429	3.19	32,641
Decrease in USD	Finance Lease	(46,724)	(242,823)	5.20	12	3.90	60,715	2.60	121,417
		(102,383)	(539,236)		(4,150)		130,835		266,454

Risk	Type	Exposure in foreign currency	Original exposure (R$)	Effective rate - 12/31/19	Probable	25% appreciation		50% appreciation	
					Amount	%	Amount	%	Amount
Increase in USD	Trade accounts receivable	1,063	5,155	4.03	(398)	5.04	573	7.56	2,676
Increase in EUR	Trade accounts receivable	632	4,031	4.53	183	5.66	(452)	6.80	263
Increase in USD	Trade accounts payable	(25,816)	(104,425)	4.03	(1,227)	5.04	(27,235)	7.56	(74,625)
Increase in USD	Finance Lease	(47,791)	(192,184)	4.03	(447)	5.04	(48,605)	7.56	(168,999)
		(71,912)	(287,423)		(1,889)		(75,719)		(240,685)

Risk	Type	Exposure in foreign currency	Original exposure (R$)	Effective rate - 12/31/19	Probable	25% devaluation		50% devaluation	
					Amount	%	Amount	%	Amount
Decrease in USD	Trade accounts receivable	1,063	5,155	4.03	(398)	3.02	(1,532)	1.51	(2,947)

(In thousands of reais, unless otherwise stated)

Decrease in EUR	Trade accounts receivable	632	4,031	4.53	183	3.40	(1,882)	2.27	(2,599)
Increase in EUR	Trade accounts payable	(25,816)	(104,425)	4.03	(1,227)	3.02	24,792	1.51	57,931
Increase in USD	Finance Lease	(47,791)	(192,184)	4.03	(447)	3.02	47,711	1.51	119,947
		(71,912)	(287,423)		(1,889)		69,089		172,332

(In thousands of reais, unless otherwise stated)

7. Financial risk management (Continued)

b) Market risk (Continued)

ii) *Credit risk*

Credit risk is managed on a Group-level basis. Credit risk arises from cash and cash equivalents, as well as credit exposures to trade receivables, including outstanding receivables and repurchase transactions. The credit analysis area assesses the customers' creditworthiness, taking into consideration their financial position, experience and other factors.

The determination of individual risk limits are based on internal ratings, according to the thresholds defined by the Board of Directors. The use of credit limits is monitored on a regular basis.

The maximum exposure to credit risk as at December 31, 2020 and 2019 is:

	2020	2019
Cash and cash equivalents (Note 8)	**237,295**	309,611
Trade accounts receivable (Note 10)	**1,075,081**	944,583
Other receivables (Note 13)	**318,750**	73,742
Short-term investments earmarked for loans (Note 9)	**4,526**	4,124
Accounts receivable - related parties (Note 29)	**41,431**	37,585
Intercompany loans (Note 29)	**-**	316,093
	1,677,083	1,685,738

The policy for assessing the provision for impairment of financial assets is shown in Note 5.

Management does not expect any loss arising from these counterparties in excess of the accrued amount.

Cash and cash equivalents

The Group's "Cash and cash equivalents" amounted to R$237,295 as at December 31, 2020 (R$309,611 in 2019). "Cash and cash equivalents" are held with financial institutions rated by Moody's as stable (or above).

7. Financial risk management (Continued)

b) Market risk (Continued)

ii) *Credit risk*

Guarantees

The Group's policy is to provide financial guarantees only for the obligations of its subsidiaries and affiliates. As at December 31, 2020 and 2019, the Group had issued guarantees to certain banks in connection with the lines of credit granted to Group companies, as follows:

- On September 6, 2018, the affiliate 3Z Realty Desenvolvimento Imobiliário S.A. raised R$130,000 through CRIs (Certificates of Real Estate Receivables) under the Company's corporate guarantee (3Z Realty Desenvolvimento Imobiliário S.A.), rated and backed by nonconvertible debentures. The CRIs bear interest at 102.5% of the CDI, with the principal maturing on August 26, 2021 and interest amortization every six months.
- Given that the loans granted to the related party 3Z are backed by a shareholders' guarantee, the related agreements are considered to have a low credit risk; thus, no impairment loss was recorded in the financial statements.

Additionally, EMS S.A. is a guarantor of other companies' obligations, as follows:

- Lorraine Administradora de Bens e Participações Sociedade Simples Ltda. raised R$145,203 from Financiadora de Estudos e Projetos (FINEP) to be repaid by December 12, 2023.
- Unidade de Diagnóstico Médico em Radiologia Intervenção e Terapia Ltda. raised R$18,143 from Financiadora de Estudos e Projetos (FINEP) to be repaid by February 8, 2021.

(In thousands of reais, unless otherwise stated)

7. Financial risk management (Continued)

b) Market risk (Continued)

iii) *Liquidity risk*

Cash flow is forecast by the Company's finance department, which monitors the continuous forecasts of the Group's liquidity requirements to ensure that it has sufficient cash to meet operational needs. It also maintains sufficient headroom on its available committed borrowing facilities (Note 8) at any time, so that the Group does not breach the limits or covenants defined in the loan agreements, as applicable, in any of its lines of credit. This forecast considers the Group's debt financing plans, compliance with covenants, compliance with internal goals relating to statement of financial position ratio and, if applicable, external or legal regulatory requirements (such as currency restrictions).

The Treasury department invests the excess cash in interest-bearing checking accounts, term deposits, short-term deposits and marketable securities, selecting instruments with appropriate maturities or sufficient liquidity to provide headroom as determined by the above-mentioned forecasts.

The table below analyzes the Group's nonderivative financial liabilities, by maturity, for the remaining period between the reporting date and the contractual maturity date. This applies to financial instruments only; therefore, it does not include liabilities arising from legislation.

	Cash flow	Before 1 year (ii)	1 to 2 years (ii)	2 to 5 years (ii)	After 5 years (ii)
December 31, 2020					
Trade and other accounts payable	**(665,153)**	**(649,225)**	**(15,928)**	**-**	**-**
Trade payables to related parties	**(19,945)**	**(19,945)**	**-**	**-**	**-**
Loans and financing	**(403,098)**	**(59,028)**	**(63,064)**	**(204,340)**	**(76,666)**
Lease liabilities	**(162,349)**	**(48,484)**	**(22,164)**	**(16,755)**	**(74,946)**
Loans with related parties	**(15,256)**	**(4,396)**	**(5,647)**	**(5,213)**	**-**
Dividends payable	**(166,058)**	**(166,058)**	**-**	**-**	**-**
Net position	**(1,431,859)**	**(947,136)**	**(106,803)**	**(226,308)**	**(151,612)**
December 31, 2019					
Trade and other accounts payable	(393,046)	(387,712)	(5,334)	-	-
Trade payables to related parties	(19,124)	(19,124)	-	-	-
Loans and financing	(336,965)	(100,689)	(55,230)	(42,511)	(138,535)
Lease liabilities	(136,614)	(45,309)	(13,368)	(16,124)	(61,813)
Loans with related parties	(16,654)	(1,399)	(7,933)	(7,322)	-
Dividends payable	(552,589)	(552,589)	-	-	-
Net position	(1,454,992)	(1,106,822)	(81,865)	(65,957)	(200,348)

The aging list applies to financial liabilities only; therefore, it does not include liabilities arising from legislation.

7. Financial risk management (Continued)

b) Market risk (Continued)

iv) *Operational risk*

Operational risk is the risk of direct or indirect loss resulting from a number of causes associated with the Group's processes, people, technology and infrastructure and from external events, other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted business practices. Operational risks emerge from all of the Group's operations.

The Group's objective is to manage operational risk to avoid financial losses and damage to the Group's reputation, while ensuring cost effectiveness and avoiding control procedures that hamper initiative and creativity.

The primary responsibility for developing and implementing controls to cover operational risks is attributed to senior management. The responsibility is supported by development of overall standards for operational risk management in each area.

v) *Capital management*

The Group's objectives in managing its capital are to safeguard its ability to continue as a going concern in order to provide returns for its shareholders and benefits for other stakeholders, as well as to maintain an optimal target capital structure to reduce the cost of capital.

In order to maintain or adjust its capital structure, the Group may – or propose, where shareholders' approval is required – adjust the dividend payment policy, return capital to shareholders, or sell assets to reduce debt.

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

(In thousands of reais, unless otherwise stated)

7. Financial risk management (Continued)

b) Market risk (Continued)

v) *Capital management (Continued)*

In 2020, the Group's strategy was to keep the financial leverage ratio between 1.10% and 1.06%.

The financial leverage ratios as at December 31, 2020 and 2019 are summarized below (consolidated):

	2020	2019
Total loans and financing and loans payable to related parties (Notes 18 and 29)	**418,354**	353,620
Total lease liabilities (Note 14)	**162,349**	136,614
Less: cash and cash equivalents (Note 8)	**(237,295)**	(309,611)
Net debt	**343,408**	180,623
Total equity attributable to controlling interests	**3,301,261**	2,625,144
Total capital (capital + net debt)	**3,644,669**	2,805,767
Financial leverage ratio	**1.10**	1.07

vi) *Classification of financial instruments*

The Company classifies its nonderivative financial instruments as amortized cost and other financial liabilities. There are no other financial instruments classified in other categories than those indicated below:

	2020 Amortized cost	2019 Amortized cost	2020 Other financial liabilities	2019 Other financial liabilities
Cash and cash equivalents	**237,295**	309,611	-	-
Trade accounts receivable	**1,075,081**	944,583	-	-
Accounts receivable from related parties	**41,431**	37,585	-	-
Intercompany loans	**-**	316,093	-	-
Short-term investments earmarked for loans	**4,526**	4,124	-	-
Other receivables	**318,750**	73,742	-	-
Total financial assets	**1,677,083**	1,685,738	-	-
Trade accounts payable	-	-	**(513,354)**	(255,935)
Trade payables to related parties	-	-	**(19,945)**	(19,124)
Dividends payable	-	-	**(166,058)**	(552,589)
Loans and financing	-	-	**(403,098)**	(336,965)
Lease liabilities	**-**	-	**(162,349)**	(136,614)
Loans with related parties	-	-	**(15,256)**	(16,654)
Other payables	-	-	**(151,799)**	(137,111)
Total financial liabilities	-	-	**(1,431,859)**	(1,454,992)

(In thousands of reais, unless otherwise stated)

7. Financial risk management (Continued)

b) Market risk (Continued)

vii) *Interest rate risk*

For purposes of testing the sensitivity to interest rate risks, the Group considers its exposure to the fluctuation of the Certificate of Interbank Deposit (CDI), a floating rate to which short-term investments and loans is indexed. The interest rates did not change in these scenarios.

For the sensitivity analysis of interest rates on loans and short-term investments, Management adopted the related carrying amounts as the probable scenario. As a reference, the other scenarios considered the devaluation and appreciation of the floating interest rate used to calculate the amounts stated in the accounting records. The probable scenario considered an appreciation and devaluation by 25% and 50%, respectively.

This table shows the potential impacts on profit and loss considering the scenarios adopted for these transactions:

Exposure and sensitivity analysis - interest rate risk

				Effective rate	Probable	25% appreciation		50% appreciation	
Exposure	**Risk**	**Type**	**Maturity**	**at 12/31/2020**	**Amount**	**%**	**Amount**	**%**	**Amount**
931	Increase in CDI	Short-term investment	7/2/2040 4/29/2021 5/30/2041	**2.61%**	**24**	**3.27%**	**1**	**3.92%**	**1**
3244	Increase in CDI	Short-term investment	10/20/2022 12/5/2022	**2.75%**	**89**	**3.44%**	**3**	**4.13%**	**4**
124	Increase in CDI	Short-term investment	6/7/2046	**2.23%**	**3**	**2.78%**	**-**	**3.34%**	**-**
92	Increase in CDI	Short-term investment	10/1/2046	**2.20%**	**2**	**2.75%**	**-**	**3.30%**	**-**
136	Increase in CDI	Short-term investment	5/2/2047	**2.34%**	**3**	**2.92%**	**-**	**3.51%**	**-**
10524	Increase in CDI	Short-term investment	4/6/2021	**2.48%**	**260**	**3.09%**	**8**	**3.71%**	**10**
10003	Increase in CDI	Short-term investment	1/22/2021	**2.34%**	**234**	**2.92%**	**7**	**3.51%**	**8**
1680	Increase in CDI	Short-term investment	12/28/2021	**2.48%**	**42**	**3.09%**	**1**	**3.71%**	**2**
18021	Increase in CDI	Short-term investment	1/28/2021	**2.26%**	**406**	**2.82%**	**11**	**3.38%**	**14**
2419	Increase in CDI	Short-term investment	1/22/2021	**2.76%**	**67**	**3.45%**	**2**	**4.15%**	**3**
198	Increase in CDI	Short-term investment	7/8/2025	**2.64%**	**5**	**3.30%**	**-**	**3.96%**	**-**
2417	Increase in CDI	Short-term investment	93/2021 9/14/2021 9/15/2021	**2.50%**	**60**	**3.13%**	**2**	**3.75%**	**2**
5112	Increase in CDI	Short-term investment	3/15/2021 12/16/2021 12/28/2021	**2.48%**	**127**	**3.09%**	**4**	**3.71%**	**5**
2331	Increase in CDI	Short-term investment	2/12/2021	**2.48%**	**58**	**3.09%**	**2**	**3.71%**	**2**
1719	Increase in CDI	Short-term investment	1/25/2021	**1.38%**	**24**	**1.72%**	**-**	**2.06%**	**-**
1020	Increase in CDI	Short-term investment	2/12/2021	**2.34%**	**24**	**2.92%**	**1**	**3.51%**	**1**
2640	Increase in CDI	Short-term investment	1/27/2021	**2.26%**	**60**	**2.82%**	**2**	**3.38%**	**2**

(In thousands of reais, unless otherwise stated)

10992	Increase in CDI	Short-term investment	2/3/2021 and 4/19/2021	**2.81%**	**308**	**3.51%**	**11**	**4.21%**	**13**
1509	Increase in CDI	Short-term investment	9/2/2021	**2.74%**	**41**	**3.42%**	**1**	**4.10%**	**2**
27279	Increase in CDI	Short-term investment	10/1/2021	**2.72%**	**743**	**3.40%**	**25**	**4.08%**	**30**
1540	Increase in CDI	Short-term investment	3/15/2021 3/18/2021	**2.48%**	**38**	**3.09%**	**1**	**3.71%**	**1**
1070	Increase in CDI	Short-term investment	1/22/2021	**2.34%**	**25**	**2.92%**	**1**	**3.51%**	**1**
41,776	Increase in CDI	Short-term investment	3/10/2022	**2.81%**	**1,174**	**3.51%**	**1,467**	**4.21%**	**1,761**
4,525	Increase in CDI	Short-term investment	2/18/2021	**2.79%**	**126**	**3.49%**	**158**	**4.19%**	**189**
4,261	Increase in CDI	Short-term investment	4/13/2021	**2.34%**	**100**	**2.92%**	**125**	**3.51%**	**149**
1,781	Increase in CDI	Short-term investment	2/12/2021	**2.48%**	**44**	**3.09%**	**55**	**3.71%**	**66**
900	Increase in CDI	Short-term investment	12/28/2021	**2.48%**	**22**	**3.09%**	**28**	**3.71%**	**33**
791	Increase in CDI	Short-term investment	1/11/2021	**2.45%**	**19**	**3.06%**	**24**	**3.67%**	**29**
560	Increase in CDI	Short-term investment	6/14/2021	**2.48%**	**14**	**3.09%**	**17**	**3.71%**	**21**
550	Increase in CDI	Short-term investment	1/27/2021	**2.26%**	**12**	**2.82%**	**16**	**3.38%**	**19**
30	Increase in CDI	Short-term investment	12/16/2021	**2.48%**	**1**	**3.09%**	**1**	**3.71%**	**1**

(In thousands of reais, unless otherwise stated)

7. Financial risk management (Continued)

b) Market risk (Continued)

vii) *Interest rate risk (Continued)*

Exposure and sensitivity analysis - interest rate risk (Continued)

Exposure	Risk	Type	Maturity	Effective rate at 12/31/20	Probable Amount	25% devaluation %	25% devaluation Amount	50% devaluation %	50% devaluation Amount
7,008	Increase in CDI	Short-term investment	2/18/2021	1.93%	135	2.41%	169	2.89%	203
3,141	Increase in CDI	Short-term investment	2/12/2021	1.71%	54	2.14%	67	2.57%	81
7,183	Increase in CDI	Short-term investment	4/6/2021	1.71%	123	2.14%	154	2.57%	184
1,040	Increase in CDI	Short-term investment	1/22/2021	1.62%	17	2.02%	21	2.42%	25
1,120	Increase in CDI	Short-term investment	1/25/2021	0.95%	11	1.19%	13	1.43%	16
2,631	Increase in CDI	Short-term investment	12/28/2021	1.71%	45	2.14%	56	2.57%	67
13,422	Increase in CDI	Short-term investment	4/13/2021	1.62%	217	2.02%	271	2.42%	325
2,490	Increase in CDI	Short-term investment	1/27/2021	1.56%	39	1.95%	48	2.34%	58
12,511	Increase in CDI	Short-term investment	n/a	2.62%	328	3.28%	410	3.93%	492
2,470	Increase in CDI	Short-term investment	4/13/2021	2.35%	58	2.93%	72	3.52%	87
4,045	Increase in CDI	Short-term investment	8/25/2021	2.53%	102	3.16%	128	3.79%	153
1,256	Increase in CDI	Short-term investment	3/15/2021	2.53%	32	3.16%	40	3.79%	48
390	Increase in CDI	Short-term investment	12/28/2021	2.48%	10	3.11%	12	3.73%	15
849	Increase in CDI	Short-term investment	2/12/2021	2.35%	20	2.93%	25	3.52%	30
219,731					5,346		3,460		4,153

Exposure	Risk	Type	Maturity	Effective rate at 12/31/20	Probable Amount	25% devaluation %	25% devaluation Amount	50% devaluation %	50% devaluation Amount
931	Decrease in CDI	Short-term investment	7/2/2040 4/29/2021 5/30/2041	2.61%	24	1.96%	-	1.31%	-
3244	Decrease in CDI	Short-term investment	10/20/2022 12/5/2022	2.75%	89	2.06%	2	1.38%	1
124	Decrease in CDI	Short-term investment	6/7/2046	2.23%	3	1.67%	-	1.11%	-
92	Decrease in CDI	Short-term investment	10/1/2046	2.20%	2	1.65%	-	1.10%	-
136	Decrease in CDI	Short-term investment	5/2/2047	2.34%	3	1.75%	-	1.17%	-
10524	Decrease in CDI	Short-term investment	4/6/2021	2.48%	260	1.86%	5	1.24%	3
10003	Decrease in CDI	Short-term investment	1/22/2021	2.34%	234	1.75%	4	1.17%	3
1680	Decrease in CDI	Short-term investment	12/28/2021	2.48%	42	1.86%	1	1.24%	1
18021	Decrease in CDI	Short-term investment	1/28/2021	2.26%	406	1.69%	7	1.13%	5
2419	Decrease in CDI	Short-term investment	1/22/2021	2.76%	67	2.07%	1	1.38%	1
198	Decrease in CDI	Short-term investment	7/8/2025	2.64%	5	1.98%	-	1.32%	-
2417	Decrease in CDI	Short-term investment	93/2021 9/14/2021 9/15/2021	2.50%	60	1.88%	1	1.25%	1
5112	Decrease in CDI	Short-term investment	3/15/2021 12/16/2021 12/28/2021	2.48%	127	1.86%	2	1.24%	2
2331	Decrease in CDI	Short-term investment	2/12/2021	2.48%	58	1.86%	1	1.24%	1

(In thousands of reais, unless otherwise stated)

1719	Decrease in CDI	Short-term investment	1/25/2021	**1.38%**	**24**	**1.03%**	**-**	**0.69%**	**-**
1020	Decrease in CDI	Short-term investment	2/12/2021	**2.34%**	**24**	**1.75%**	**-**	**1.17%**	**-**
2640	Decrease in CDI	Short-term investment	1/27/2021	**2.26%**	**60**	**1.69%**	**1**	**1.13%**	**1**
10992	Decrease in CDI	Short-term investment	2/3/2021 and 4/19/2021	**2.81%**	**308**	**2.10%**	**6**	**1.40%**	**4**
1509	Decrease in CDI	Short-term investment	9/2/2021	**2.74%**	**41**	**2.05%**	**1**	**1.37%**	**1**
27279	Decrease in CDI	Short-term investment	10/1/2021	**2.72%**	**743**	**2.04%**	**15**	**1.36%**	**10**
1540	Decrease in CDI	Short-term investment	3/15/2021 3/18/2021	**2.48%**	**38**	**1.86%**	**1**	**1.24%**	**-**
1070	Decrease in CDI	Short-term investment	1/22/2021	**2.34%**	**25**	**1.75%**	**-**	**1.17%**	**-**
41,776	Decrease in CDI	Short-term investment	3/10/2022	**2.81%**	**1,174**	**2.11%**	**880**	**1.40%**	**587**
4,525	Decrease in CDI	Short-term investment	2/18/2021	**2.79%**	**126**	**2.09%**	**95**	**1.40%**	**63**
4,261	Decrease in CDI	Short-term investment	4/13/2021	**2.34%**	**100**	**1.75%**	**75**	**1.17%**	**50**
1,781	Decrease in CDI	Short-term investment	2/12/2021	**2.48%**	**44**	**1.86%**	**33**	**1.24%**	**22**
900	Decrease in CDI	Short-term investment	12/28/2021	**2.48%**	**22**	**1.86%**	**17**	**1.24%**	**11**
791	Decrease in CDI	Short-term investment	1/11/2021	**2.45%**	**19**	**1.84%**	**15**	**1.22%**	**10**
560	Decrease in CDI	Short-term investment	6/14/2021	**2.48%**	**14**	**1.86%**	**10**	**1.24%**	**7**
550	Decrease in CDI	Short-term investment	1/27/2021	**2.26%**	**12**	**1.69%**	**9**	**1.13%**	**6**
30	Decrease in CDI	Short-term investment	12/16/2021	**2.48%**	**1**	**1.86%**	**1**	**1.24%**	**-**
7,008	Decrease in CDI	Short-term investment	2/18/2021	**1.93%**	**135**	**1.45%**	**101**	**0.69%**	**68**
3,141	Decrease in CDI	Short-term investment	2/12/2021	**1.71%**	**54**	**1.28%**	**40**	**0.86%**	**27**
7,183	Decrease in CDI	Short-term investment	4/6/2021	**1.71%**	**123**	**1.28%**	**92**	**0.86%**	**61**
1,040	Decrease in CDI	Short-term investment	1/22/2021	**1.62%**	**17**	**1.21%**	**13**	**0.81%**	**8**
1,120	Decrease in CDI	Short-term investment	1/25/2021	**0.95%**	**11**	**0.71%**	**8**	**0.48%**	**5**
2,631	Decrease in CDI	Short-term investment	12/28/2021	**1.71%**	**45**	**1.28%**	**34**	**0.86%**	**22**

(In thousands of reais, unless otherwise stated)

7. Financial risk management (Continued)

b) Market risk (Continued)

vii) *Interest rate risk (Continued)*

Exposure and sensitivity analysis - interest rate risk (Continued)

				Effective rate	Probable	25% appreciation		50% appreciation	
Exposure	**Risk**	**Type**	**Maturity**	**at 12/31/2020**	**Amount**	**%**	**Amount**	**%**	**Amount**
13,422	Decrease in CDI	Short-term investment	4/13/2021	**1.62%**	**217**	**1.21%**	**163**	**0.81%**	**108**
2,490	Decrease in CDI	Short-term investment	1/27/2021	**1.56%**	**39**	**1.17%**	**29**	**0.78%**	**19**
12,511	Decrease in CDI	Short-term investment	n/a	**2.62%**	**328**	**1.97%**	**246**	**1.31%**	**164**
2,470	Decrease in CDI	Short-term investment	4/13/2021	**2.35%**	**58**	**1.76%**	**43**	**1.17%**	**29**
4,045	Decrease in CDI	Short-term investment	8/25/2021	**2.53%**	**102**	**1.89%**	**77**	**1.26%**	**51**
1,256	Decrease in CDI	Short-term investment	3/15/2021	**2.53%**	**32**	**1.89%**	**24**	**1.26%**	**16**
390	Decrease in CDI	Short-term investment	12/28/2021	**2.48%**	**10**	**1.86%**	**7**	**1.24%**	**5**
849	Decrease in CDI	Short-term investment	2/12/2021	**2.35%**	**20**	**1.76%**	**15**	**1.17%**	**10**
219,731					**5,346**		**2,075**		**1,383**

				Effective rate	Probable	25% appreciation		50% appreciation	
Exposure	**Risk**	**Type**	**Maturity**	**at 12/31/2019**	**Amount**	**%**	**Amount**	**%**	**Amount**
12,875	Increase in CDI	Short-term investment	3/26/2020	5.29%	681	6.61%	45	7.93%	54
10,864	Increase in CDI	Short-term investment	n/a	5.94%	645	7.43%	48	8.91%	58
10,337	Increase in CDI	Short-term investment	7/10/2020	5.91%	611	7.39%	45	8.87%	54
5,533	Increase in CDI	Short-term investment	n/a	6.03%	334	7.54%	25	9.05%	30
5,249	Increase in CDI	Short-term investment	1/7/2020	6.02%	316	7.52%	24	9.03%	29
3,780	Increase in CDI	Short-term investment	7/2/2040	5.64%	213	7.05%	15	8.46%	18
1,063	Increase in CDI	Short-term investment	8/8/2024	5.64%	60	7.05%	4	8.46%	5
211	Increase in CDI	Short-term investment	6/7/2046 -10/1/2046	4.79%	10	5.99%	1	7.19%	1
133	Increase in CDI	Short-term investment	5/5/2047	5.05%	7	6.31%	-	7.57%	1
11,981	Increase in CDI	Short-term investment	12/11/2020 to 12/23/2020	5.29%	633	6.61%	42	7.93%	50
21,345	Increase in CDI	Short-term investment	10/2/2020	5.85%	1,249	7.31%	91	8.78%	110
9,283	Increase in CDI	Short-term investment	3/23/2020	5.98%	555	7.48%	42	8.97%	50
7,669	Increase in CDI	Short-term investment	3/9/2020 to 12/29/2020	5.29%	405	6.61%	27	7.93%	32
7,540	Increase in CDI	Short-term investment	1/30/2020 to 2/11/2020	5.97%	450	7.46%	34	8.95%	40
7,358	Increase in CDI	Short-term investment	2/10/2020	5.97%	439	7.46%	33	8.95%	39
6,020	Increase in CDI	Short-term investment	3/2/2020	5.95%	358	7.44%	27	8.93%	32
5,387	Increase in CDI	Short-term investment	10/2/2020	5.85%	315	7.31%	23	8.78%	28
3,481	Increase in CDI	Short-term investment	1/24/2020	4.81%	167	6.01%	10	7.22%	12
1,481	Increase in CDI	Short-term investment	9/2/2020	5.85%	87	7.31%	6	8.78%	8
407	Increase in CDI	Short-term investment	7/26/2024	4.31%	18	5.39%	22	6.47%	26

(In thousands of reais, unless otherwise stated)

10,110	Increase in CDI	Short-term investment	1/7/2020	4.62%	467	5.78%	584	6.93%	701
18,633	Increase in CDI	Short-term investment	2/10/2020	4.61%	860	5.77%	1,074	6.92%	1,289
1,044	Increase in CDI	Short-term investment	2/26/2020	4.09%	43	5.11%	53	6.13%	64
983	Increase in CDI	Short-term investment	11/27/2020	4.09%	40	5.11%	50	6.13%	60
672	Increase in CDI	Short-term investment	3/2/2020	4.09%	27	5.11%	34	6.13%	41
2,939	Increase in CDI	Short-term investment	3/2/2020	4.09%	120	5.11%	150	6.13%	180
772	Increase in CDI	Short-term investment	1/10/2020	4.09%	32	5.11%	39	6.13%	47
2,665	Increase in CDI	Short-term investment	12/10/2020	4.09%	109	5.11%	136	6.13%	163
1,022	Increase in CDI	Short-term investment	12/11/2020	4.09%	42	5.11%	52	6.13%	63
2,003	Increase in CDI	Short-term investment	12/14/2020	4.09%	82	5.11%	102	6.13%	123
1,092	Increase in CDI	Short-term investment	3/16/2020	4.09%	45	5.11%	56	6.13%	67
1,131	Increase in CDI	Short-term investment	12/17/2020	4.09%	46	5.11%	58	6.13%	69
1,761	Increase in CDI	Short-term investment	12/28/2020	4.09%	72	5.11%	90	6.13%	108

(In thousands of reais, unless otherwise stated)

7. Financial risk management (Continued)

b) Market risk (Continued)

vii) *Interest rate risk (Continued)*

Exposure and sensitivity analysis - interest rate risk (Continued)

Exposure	Risk	Type	Maturity	Effective rate at 12/31/2020	Probable Amount	25% appreciation %	25% appreciation Amount	50% appreciation %	50% appreciation Amount
6,453	Increase in CDI	Short-term investment	3/25/2020	4.09%	264	5.11%	330	6.13%	395
1,941	Increase in CDI	Short-term investment	1/24/2020	3.72%	72	4.65%	90	5.58%	108
721	Increase in CDI	Short-term investment	12/29/2020	4.09%	29	5.11%	37	6.13%	44
19,424	Increase in CDI	Short-term investment	n/a	5.66%	1,100	7.08%	1,375	8.49%	1,650
968	Increase in CDI	Short-term investment	11/3/2020	5.30%	51	6.63%	64	7.96%	77
201	Increase in CDI	Short-term investment	11/4/2020	5.30%	11	6.63%	13	7.96%	16
201	Increase in CDI	Short-term investment	11/5/2020	5.30%	11	6.63%	13	7.96%	16
201	Increase in CDI	Short-term investment	11/6/2020	5.30%	11	6.63%	13	7.96%	16
533	Increase in CDI	Short-term investment	3/26/2020	5.30%	28	6.63%	35	7.96%	42
764	Increase in CDI	Short-term investment	11/9/2020	5.30%	41	6.63%	51	7.96%	61
141	Increase in CDI	Short-term investment	11/11/2020	5.30%	7	6.63%	9	7.96%	11
572	Increase in CDI	Short-term investment	2/26/2020	5.30%	30	6.63%	38	7.96%	46
803	Increase in CDI	Short-term investment	11/27/2020	5.30%	43	6.63%	53	7.96%	64
1,595	Increase in CDI	Short-term investment	11/27/2020	5.30%	85	6.63%	106	7.96%	127
251	Increase in CDI	Short-term investment	12/2/2020	5.30%	13	6.63%	17	7.96%	20
130	Increase in CDI	Short-term investment	1/10/2020	5.30%	7	6.63%	9	7.96%	10
6,938	Increase in CDI	Short-term investment	1/6/2020	5.97%	414	7.46%	518	8.96%	622
9,453	Increase in CDI	Short-term investment	3/9/2020	5.97%	565	7.46%	706	8.96%	847
160	Increase in CDI	Short-term investment	3/9/2020	5.30%	9	6.63%	11	7.96%	13
180	Increase in CDI	Short-term investment	3/11/2020	5.30%	10	6.63%	12	7.96%	14
621	Increase in CDI	Short-term investment	12/10/2020	5.30%	33	6.63%	41	7.96%	49
361	Increase in CDI	Short-term investment	12/7/2020	5.30%	19	6.63%	24	7.96%	29
711	Increase in CDI	Short-term investment	3/16/2020	5.07%	36	6.33%	45	7.60%	54
540	Increase in CDI	Short-term investment	2/14/2020	5.30%	29	6.63%	36	7.96%	43
540	Increase in CDI	Short-term investment	12/23/2020	5.30%	29	6.63%	36	7.96%	43
890	Increase in CDI	Short-term investment	3/25/2020	4.83%	43	6.03%	54	7.24%	64
531	Increase in CDI	Short-term investment	1/24/2020	5.30%	28	6.63%	35	7.96%	42
2,470	Increase in CDI	Short-term investment	12/29/2020	5.20%	128	6.50%	160	7.79%	193
19,627	Increase in CDI	Short-term investment	1/7/2020	5.17%	1,015	6.46%	1,268	7.76%	1,522
23,723	Increase in CDI	Short-term investment	1/20/2020	5.59%	1,326	6.98%	1,657	8.38%	1,988
341	Increase in CDI	Short-term investment	2/10/2020	5.30%	18	6.63%	23	7.96%	27

(In thousands of reais, unless otherwise stated)

2,932	Increase in CDI	Short-term investment	1/6/2020	**5.30%**	**156**	**6.63%**	**194**	**7.96%**	**233**
1,591	Increase in CDI	Short-term investment	12/23/2020	**5.30%**	**84**	**6.63%**	**105**	**7.96%**	**127**
1,400	Increase in CDI	Short-term investment	3/25/2020	**5.30%**	**74**	**6.63%**	**93**	**7.96%**	**111**
284,732					**15,357**		**10,313**		**12,376**

				Effective rate	Probable	25% devaluation		50% devaluation	
Exposure	**Risk**	**Type**	**Maturity**	**at 12/31/19**	**Amount**	**%**	**Amount**	**%**	**Amount**
12,875	Decrease in CDI	Short-term investment	3/26/2020	5.29%	681	3.96%	27	2.64%	18
10,864	Decrease in CDI	Short-term investment	n/a	5.94%	645	4.46%	29	2.97%	19
10,337	Decrease in CDI	Short-term investment	07/10/2020	5.91%	611	4.43%	27	2.96%	18
5,533	Decrease in CDI	Short-term investment	n/a	6.03%	334	4.52%	15	3.02%	10
5,249	Decrease in CDI	Short-term investment	01/07/2020	6.02%	316	4.51%	14	3.01%	10
3,780	Decrease in CDI	Short-term investment	07/02/2040	5.64%	213	4.23%	9	2.82%	6
1,063	Decrease in CDI	Short-term investment	08/08/2024	5.64%	60	4.23%	3	2.82%	2
211	Decrease in CDI	Short-term investment	6/7/2046 -10/1/2046	4.79%	10	3.59%	-	2.40%	-
133	Decrease in CDI	Short-term investment	05/05/2047	5.05%	7	3.79%	-	2.52%	-
11,981	Decrease in CDI	Short-term investment	12/11/2020 to 12/23/2020	5.29%	633	3.96%	25	2.64%	17
21,345	Decrease in CDI	Short-term investment	10/02/2020	5.85%	1,249	4.39%	55	2.93%	37
9,283	Decrease in CDI	Short-term investment	3/23/2020	5.98%	555	4.49%	25	2.99%	17
7,669	Decrease in CDI	Short-term investment	3/9/2020 to 12/29/2020	5.29%	405	3.96%	16	2.64%	11
7,540	Decrease in CDI	Short-term investment	1/30/2020 to 2/11/2020	5.97%	450	4.48%	20	2.98%	13
7,358	Decrease in CDI	Short-term investment	02/10/2020	5.97%	439	4.48%	20	2.98%	13
6,020	Decrease in CDI	Short-term investment	03/02/2020	5.95%	358	4.46%	16	2.98%	11
5,387	Decrease in CDI	Short-term investment	10/02/2020	5.85%	315	4.39%	14	2.93%	9
3,481	Decrease in CDI	Short-term investment	1/24/2020	4.81%	167	3.61%	6	2.41%	4
1,481	Decrease in CDI	Short-term investment	09/02/2020	5.85%	87	4.39%	4	2.93%	3
407	Decrease in CDI	Short-term investment	7/26/2024	4.31%	18	3.24%	13	2.16%	9
10,110	Decrease in CDI	Short-term investment	01/07/2020	4.62%	467	3.47%	350	2.31%	234
18,633	Decrease in CDI	Short-term investment	02/10/2020	4.61%	860	3.46%	645	2.31%	430

(In thousands of reais, unless otherwise stated)

7. Financial risk management (Continued)

b) Market risk (Continued)

vii) *Interest rate risk (Continued)*

Exposure and sensitivity analysis - interest rate risk (Continued)

				Effective rate	Probable	25% devaluation		50% devaluation	
Exposure	**Risk**	**Type**	**Maturity**	**at 12/31/2020**	**Amount**	**%**	**Amount**	**%**	**Amount**
1,044	Decrease in CDI	Short-term investment	2/26/2020	**4.09%**	**43**	**3.06%**	**32**	**2.04%**	**21**
983	Decrease in CDI	Short-term investment	11/27/2020	**4.09%**	**40**	**3.06%**	**30**	**2.04%**	**20**
672	Decrease in CDI	Short-term investment	3/2/2020	**4.09%**	**27**	**3.06%**	**21**	**2.04%**	**14**
2,939	Decrease in CDI	Short-term investment	3/2/2020	**4.09%**	**120**	**3.06%**	**90**	**2.04%**	**60**
772	Decrease in CDI	Short-term investment	1/10/2020	**4.09%**	**32**	**3.06%**	**24**	**2.04%**	**16**
2,665	Decrease in CDI	Short-term investment	12/10/2020	**4.09%**	**109**	**3.06%**	**82**	**2.04%**	**54**
1,022	Decrease in CDI	Short-term investment	12/11/2020	**4.09%**	**42**	**3.06%**	**31**	**2.04%**	**21**
2,003	Decrease in CDI	Short-term investment	12/14/2020	**4.09%**	**82**	**3.06%**	**61**	**2.04%**	**41**
1,092	Decrease in CDI	Short-term investment	3/16/2020	**4.09%**	**45**	**3.06%**	**33**	**2.04%**	**22**
1,131	Decrease in CDI	Short-term investment	12/17/2020	**4.09%**	**46**	**3.06%**	**35**	**2.04%**	**23**
1,761	Decrease in CDI	Short-term investment	12/28/2020	**4.09%**	**72**	**3.06%**	**54**	**2.04%**	**36**
6,453	Decrease in CDI	Short-term investment	3/25/2020	**4.09%**	**264**	**3.06%**	**198**	**2.04%**	**132**
1,941	Decrease in CDI	Short-term investment	1/24/2020	**3.72%**	**72**	**2.79%**	**54**	**1.86%**	**36**
721	Decrease in CDI	Short-term investment	12/29/2020	**4.09%**	**29**	**3.06%**	**22**	**2.04%**	**15**
19,424	Decrease in CDI	Short-term investment	n/a	**5.66%**	**1,100**	**4.25%**	**825**	**2.83%**	**550**
968	Decrease in CDI	Short-term investment	11/3/2020	**5.30%**	**51**	**3.98%**	**38**	**2.65%**	**26**
201	Decrease in CDI	Short-term investment	11/4/2020	**5.30%**	**11**	**3.98%**	**8**	**2.65%**	**5**
201	Decrease in CDI	Short-term investment	11/5/2020	**5.30%**	**11**	**3.98%**	**8**	**2.65%**	**5**
201	Decrease in CDI	Short-term investment	11/6/2020	**5.30%**	**11**	**3.98%**	**8**	**2.65%**	**5**
533	Decrease in CDI	Short-term investment	11/9/2020	**5.30%**	**28**	**3.98%**	**21**	**2.65%**	**14**
764	Decrease in CDI	Short-term investment	11/11/2020	**5.30%**	**41**	**3.98%**	**30**	**2.65%**	**20**
141	Decrease in CDI	Short-term investment	2/26/2020	**5.30%**	**7**	**3.98%**	**6**	**2.65%**	**4**
572	Decrease in CDI	Short-term investment	11/27/2020	**5.30%**	**30**	**3.98%**	**23**	**2.65%**	**15**
803	Decrease in CDI	Short-term investment	11/27/2020	**5.30%**	**43**	**3.98%**	**32**	**2.65%**	**21**
1,595	Decrease in CDI	Short-term investment	12/2/2020	**5.30%**	**85**	**3.98%**	**63**	**2.65%**	**42**
251	Decrease in CDI	Short-term investment	1/10/2020	**5.30%**	**13**	**3.98%**	**10**	**2.65%**	**7**
130	Decrease in CDI	Short-term investment	1/6/2020	**5.30%**	**7**	**3.98%**	**5**	**2.65%**	**3**
6,938	Decrease in CDI	Short-term investment	3/9/2020	**5.97%**	**414**	**4.48%**	**311**	**2.99%**	**207**
9,453	Decrease in CDI	Short-term investment	3/9/2020	**5.97%**	**565**	**4.48%**	**423**	**2.99%**	**282**
160	Decrease in CDI	Short-term investment	3/11/2020	**5.30%**	**9**	**3.98%**	**6**	**2.65%**	**4**
180	Decrease in CDI	Short-term investment	12/10/2020	**5.30%**	**10**	**3.98%**	**7**	**2.65%**	**5**

(In thousands of reais, unless otherwise stated)

621	Decrease in CDI	Short-term investment	12/7/2020	**5.30%**	**33**	**3.98%**	**25**	**2.65%**	**16**
361	Decrease in CDI	Short-term investment	3/16/2020	**5.30%**	**19**	**3.98%**	**14**	**2.53%**	**10**
711	Decrease in CDI	Short-term investment	2/14/2020	**5.07%**	**36**	**3.80%**	**27**	**2.65%**	**18**
540	Decrease in CDI	Short-term investment	12/23/2020	**5.30%**	**29**	**3.98%**	**21**	**2.65%**	**14**
540	Decrease in CDI	Short-term investment	3/25/2020	**5.30%**	**29**	**3.98%**	**21**	**2.53%**	**14**
890	Decrease in CDI	Short-term investment	1/24/2020	**4.83%**	**43**	**3.62%**	**32**	**2.41%**	**21**
531	Decrease in CDI	Short-term investment	12/29/2020	**5.30%**	**28**	**3.98%**	**21**	**2.65%**	**14**
2,470	Decrease in CDI	Short-term investment	1/7/2020	**5.20%**	**128**	**3.90%**	**96**	**2.60%**	**64**
19,627	Decrease in CDI	Short-term investment	1/20/2020	**5.17%**	**1,015**	**3.88%**	**761**	**2.59%**	**507**
23,723	Decrease in CDI	Short-term investment	2/10/2020	**5.59%**	**1,326**	**4.19%**	**994**	**2.79%**	**663**
341	Decrease in CDI	Short-term investment	1/6/2020	**5.30%**	**18**	**3.98%**	**14**	**2.65%**	**9**
2,932	Decrease in CDI	Short-term investment	12/23/2020	**5.30%**	**156**	**3.98%**	**117**	**2.65%**	**78**
1,591	Decrease in CDI	Short-term investment	3/25/2020	**5.30%**	**84**	**3.98%**	**63**	**2.65%**	**42**
1,400	Decrease in CDI	Short-term investment	1/24/2020	**5.30%**	**74**	**3.98%**	**56**	**2.65%**	**37**
284,732					**15,357**		**6,186**		**4,124**

(In thousands of reais, unless otherwise stated)

7. Financial risk management (Continued)

b) Market risk (Continued)

vii) *Interest rate risk (Continued)*

Exposure and sensitivity analysis - interest rate risk (Continued)

			Effective rate - 12/31/2020	Probable	25% appreciation		50% appreciation	
Exposure	**Risk**	**Type**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**
4,140	Loan (Liability)	R&D BNDES - Sub A	100	11	125	14	150	17
2,369	Loan (Liability)	R&D BNDES - Sub B	100	7	125	9	150	10
42,164	Loan (Liability)	Storeroom Reconstruction Project - Sub A	100	763	125	954	150	1,145
38,846	Loan (Liability)	Storeroom Reconstruction Project - Sub B	100	766	125	958	150	1,149
19,342	Loan (Liability)	Oncology Injectables Project - Sub A	100	265	125	331	150	397
5,464	Loan (Liability)	Oncology Injectables Project - Sub B	100	79	125	99	150	119
28,483	Loan (Liability)	R&D Finep	100	80	125	100	150	120
197	Loan (Liability)	FINAME/Promáquina FINA06	100	0	125	0	150	0
37	Loan (Liability)	FINAME/Bauch Campos FINA07	100	0	125	0	150	0
242,823	Loan (Liability)	Aircraft JP Morgan*	100	125	125	157	150	188
8,055	Loan (Liability)	Pró DF	100	161	125	201	150	242
131,072	Lease (Liability)	Lease liabilities	100	11,309	125	14,136	150	16,963
10,112	Lease (Liability)	Lease (Liability)	100	1,009	125	1,261	2	1,514
7,593	Loan (Liability)	Brazilian Development Bank (BNDES)	100	874	125	1,093	150	1,311
3,536	Loan (Liability)	Brazilian Development Bank (BNDES)	100	106	125	132	150	159
49	Loan (Liability)	Brazilian Development Bank (BNDES)	100	4	125	5	150	7
17,588	Lease (Liability)	Leases	100	1,280	125	1,600	150	1,920
15,256	Loan (related parties)	Carlos Sanches	100	305	125	381	150	458
3,577	Lease (Liability)	Lease (Liability)	100	357	125	446	150	535
580,703				17,501		21,877		26,254

			Effective rate - 12/31/2020	Probable	25% Devaluation		50% Devaluation	
Exposure	**Risk**	**Type**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**
4,140	Loan (Liability)	R&D BNDES - Sub A	100	11	75	14	50	17
2,369	Loan (Liability)	R&D BNDES - Sub B	100	7	75	9	50	10
42,164	Loan (Liability)	Storeroom Reconstruction Project - Sub A	100	763	75	954	50	1,145
38,846	Loan (Liability)	Storeroom Reconstruction Project - Sub B	100	766	75	958	50	1,149
19,342	Loan (Liability)	Oncology Injectables Project - Sub A	100	265	75	331	50	397
5,464	Loan (Liability)	Oncology Injectables Project - Sub B	100	79	75	99	50	119
28,483	Loan (Liability)	R&D Finep	100	80	75	100	50	120
197	Loan (Liability)	FINAME/Promáquina FINA06	100	-	75	-	50	0
37	Loan (Liability)	FINAME/Bauch Campos FINA07	100	-	75	-	50	0
242,823	Loan (Liability)	Aircraft JP Morgan*	100	125	75	157	50	188
8,055	Loan (Liability)	Pró DF	100	161	75	201	50	242
131,072	Lease (Liability)	Lease liabilities	100	11,309	75	14,136	50	16,963
10,112	Lease (Liability)	Lease (Liability)	100	1,009	75	757	50	505
7,593	Loan (Liability)	Brazilian Development Bank (BNDES)	100	874	75	656	50	437
3,536	Loan (Liability)	Brazilian Development Bank (BNDES)	100	106	75	79	50	53
49	Loan (Liability)	Brazilian Development Bank (BNDES)	100	4	75	3	50	2
17,588	Lease (Liability)	Leases	100	1,280	75	960	50	640
15,256	Loan (related parties)	Carlos Sanches	100	305	75	229	50	153
3,577	Lease (Liability)	Lease (Liability)	100	357	75	268	50	178
580,703				17,501		19,911		22,318

(In thousands of reais, unless otherwise stated)

7. Financial risk management (Continued)

b) Market risk (Continued)

vii) *Interest rate risk (Continued)*

Exposure and sensitivity analysis - interest rate risk (Continued)

			Effective rate - 12/31/2019	Probable	25% appreciation		50% appreciation	
Exposure	**Risk**	**Type**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**
193,012	Finance Lease	Loan (Liability)	100	448	125	560	150	672
103,605	Leases	Lease (Liability)	100	4,655	125	5,819	150	6,982
9,401	Leases	Lease (Liability)	100	938	125	1,173	150	1,407
7,999	Leases	Lease (Liability)	100	798	125	998	150	1,197
15,610	Leases	Lease (Liability)	100	1,558	125	1,947	150	2,337
40,707	R&D Finep	Loan (Liability)	100	132	125	165	150	198
20,087	Project - Plant in Brasília	Loan (Liability)	100	87	125	108	150	130
7,441	Project RD&I	Loan (Liability)	100	22	125	28	150	33
6,131	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	DC Expansion Project - Jaguariúna	Loan (Liability)	100	6	125	7	150	8
1,037	FINAME/Fabrima_Horizontal Cartoner - Nonsterile Ointments FINA12	Loan (Liability)	100	4	125	5	150	6
721	FINAME/Fabrima_Horizontal Cartoner - 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 Collator FINA14	Loan (Liability)	100	1	125	1	150	2
145	FINAME/Fabrima_Tube Filler - Eye Ointments FINA13	Loan (Liability)	100	1	125	1	150	2
53	FINAME/Bauch Campos FINA07	Loan (Liability)	100	-	125	-	150	-
961	FINAME	Loan (Liability)	100	3	125	4	150	5
17,054	Brazilian Development Bank (BNDES)	Loan (Liability)	100	48	125	61	150	73
18,983	Brazilian Development Bank (BNDES)	Loan (Liability)	100	54	125	67	150	81
14,740	Brazilian Development Bank (BNDES)	Loan (Liability)	100	228	125	285	150	342
8,767	Brazilian Development Bank (BNDES)	Loan (Liability)	100	6	125	7	150	9
1,244	Brazilian Development Bank (BNDES)	Loan (Liability)	100	2	125	2	150	3
156	Brazilian Development Bank (BNDES)	Loan (Liability)	100	-	125	-	150	1
122	Brazilian Development Bank (BNDES)	Loan (Liability)	100	-	125	-	150	-
16,654	Carlos Sanches	Loan (related parties)	100	333	125	416	150	500
490,234				9,614		12,016		14,424

(In thousands of reais, unless otherwise stated)

7. Financial risk management (Continued)

b) Market risk (Continued)

vii) *Interest rate risk (Continued)*

Exposure and sensitivity analysis - interest rate risk (Continued)

Exposure	Risk	Type	Effective rate - 12/31/2019	Probable	25% Devaluation		50% Devaluation	
			%	Amount	%	Amount	%	Amount
193,012	Finance Lease	Loan (Liability)	100	448	75	336	50	224
103,605	Leases	Lease (Liability)	100	4,655	75	3,491	50	2,327
9,401	Leases	Lease (Liability)	100	938	75	704	50	469
7,999	Leases	Lease (Liability)	100	798	75	599	50	399
15,610	Leases	Lease (Liability)	100	1,558	75	1,168	50	779
40,707	R&D Finep	Loan (Liability)	100	132	75	99	50	66
20,087	Project - Plant in Brasília	Loan (Liability)	100	87	75	65	50	43
7,441	Project RD&I	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	DC Expansion Project - Jaguariúna	Loan (Liability)	100	6	75	4	50	3
1,037	FINAME/Fabrima_Horizontal Cartoner - Nonsterile Ointments FINA12	Loan (Liability)	100	4	75	3	50	2
721	FINAME/Fabrima_Horizontal Cartoner - 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 Collator FINA14	Loan (Liability)	100	1	75	1	50	1
145	FINAME/Fabrima_Tube Filler - Eye Ointments FINA13	Loan (Liability)	100	1	75	1	50	1
53	FINAME/Bauch Campos FINA07	Loan (Liability)	100	-	75	-	50	-
961	FINAME	Loan (Liability)	100	3	75	3	50	2
17,054	Brazilian Development Bank (BNDES)	Loan (Liability)	100	48	75	36	50	24
18,983	Brazilian Development Bank (BNDES)	Loan (Liability)	100	54	75	40	50	27
14,740	Brazilian Development Bank (BNDES)	Loan (Liability)	100	228	75	171	50	114
8,767	Brazilian Development Bank (BNDES)	Loan (Liability)	100	6	75	4	50	3
1,244	Brazilian Development Bank (BNDES)	Loan (Liability)	100	2	75	1	50	1
156	Brazilian Development Bank (BNDES)	Loan (Liability)	100	-	75	-	50	-
122	Brazilian Development Bank (BNDES)	Loan (Liability)	100	-	75	-	50	-
16,654	Carlos Sanches	Loan (related parties)	100	333	75	250	50	167
490,234		Loan (Liability)		9,614		7,211		4,809

viii) *Accounting classification and fair value measurement*

A number of the Group's accounting policies and disclosures require financial and nonfinancial assets and liabilities to be measured at fair value.

The Group establishes a control structure related to the measurement of fair value. Management reviews significant unobservable inputs and valuation adjustments on a regular basis. If third-party information such as quotations from brokers or pricing services is used to measure fair value, then the assessment team reviews the evidence obtained from third parties to support the conclusion that such assessments meet the requirements of CPC, including the level in the fair value hierarchy in which such assessments should be classified.

(In thousands of reais, unless otherwise stated)

7. Financial risk management (Continued)

b) Market risk (Continued)

viii) *Accounting classification and fair value measurement (Continued)*

In measuring the fair value of an asset or liability, the Group uses observable market inputs whenever these are available. The fair values are classified in different levels in the following hierarchy based on inputs used in valuation techniques:

- Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities.
- Level 2: inputs, other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices).
- Level 3: significant assumptions for the asset or liability that are not based on market observable data (unobservable inputs).

In compliance with the transitional provisions of CPC 46 (Fair value measurement), the Group has applied the new fair value measurement guidance prospectively, and the changes had no significant impact on the measurement of the assets and liabilities of the combined entity EMS.

The classification according to the fair value hierarchy of the Group's financial instruments measured at fair value is determined as follows:

	Fair value of financial instruments measured through profit or loss				Fair value of other		Carrying
2020	Level 1	Level 2	Level 3	Total	categories	Fair value	value
Assets							
Cash and cash equivalents	-	-	-	-	237,295	237,295	237,295
Trade accounts receivable	-	-	-	-	1,075,081	1,075,081	1,075,081
Accounts receivable from related parties	-	-	-	-	41,431	41,431	41,431
Intercompany loans	-	-	-	-	-	-	-
Short-term investments earmarked for loans	-	-	-	-	4,526	4,526	4,526
Other receivables	-	-	-	-	318,750	318,750	318,750
Total	-	-	-	-	1,677,083	1,677,083	1,677,083
Liabilities							
Trade accounts payable	-	-	-	-	(513,354)	(513,354)	(513,354)
Trade accounts payable to related parties	-	-	-	-	(19,945)	(19,945)	(19,945)
Dividends payable	-	-	-	-	(166,058)	(166,058)	(166,058)
Loans and financing	-	-	-	-	(403,098)	(403,098)	(403,098)
Lease liabilities	-	-	-	-	(162,349)	(162,349)	(162,349)
Loans with related parties	-	-	-	-	(15,256)	(15,256)	(15,256)
Other payables	-	-	-	-	(151,799)	(151,799)	(151,799)
Total	-	-	-	-	(1,431,859)	(1,431,859)	(1,431,859)

(In thousands of reais, unless otherwise stated)

7. Financial risk management (Continued)

b) Market risk (Continued)

viii) *Accounting classification and fair value measurement (Continued)*

2019	Fair value of financial instruments measured through profit or loss				Fair value of other categories	Fair value	Carrying value
	Level 1	Level 2	Level 3	Total			
Assets							
Cash and cash equivalents	-	-	-	-	309,611	309,611	309,611
Trade accounts receivable	-	-	-	-	944,583	944,583	944,583
Accounts receivable from related parties	-	-	-	-	37,585	37,585	37,585
Intercompany loans	-	-	-	-	316,093	316,093	316,093
Short-term investments earmarked for loans	-	-	-	-	4,124	4,124	4,124
Other receivables	-	-	-	-	73,742	73,742	73,742
Total	-	-	-	-	1,685,738	1,685,738	1,685,738
Liabilities							
Trade accounts payable	-	-	-	-	(255,935)	(255,935)	(255,935)
Trade accounts payable to related parties	-	-	-	-	(19,124)	(19,124)	(19,124)
Dividends payable	-	-	-	-	(552,589)	(552,589)	(552,589)
Loans and financing	-	-	-	-	(336,965)	(336,965)	(336,965)
Lease liabilities					(136,614)	(136,614)	(136,614)
Loans with related parties	-	-	-	-	(16,654)	(16,654)	(16,654)
Other payables	-	-	-	-	(137,111)	(137,111)	(137,111)
Total	-	-	-	-	(1,454,992)	(1,454,992)	(1,454,992)

The Company used the following methods and assumptions to estimate the fair value disclosure of its financial instruments as at December 31, 2020 and 2019:

Cash and cash equivalents and short-term investments earmarked for loans: stated at market value, which corresponds to their carrying value.

Trade and related-party receivables: derive directly from the transactions of the Group and its customers, and are classified as amortized cost. These are recorded at their original value, subject to a provision for impairment losses. The original amounts, net of the provision, approximate their fair values at the reporting date.

Loans receivable from related parties: classified as loans and receivables recorded for the related contract prices.

Loans and financing: classified as other financial liabilities recorded for the related contract prices.

(In thousands of reais, unless otherwise stated)

7. Financial risk management (Continued)

b) Market risk (Continued)

viii) *Accounting classification and fair value measurement (Continued)*

Trade and related-party payables: derive directly from the transactions of the Group and its suppliers for the purchase of goods, and are classified as other financial liabilities. These are recorded at their original amounts, which approximate their fair values at the reporting date.

Other receivables and payables: recorded at their original amounts, which approximate their fair values at the reporting date.

8. Cash and cash equivalents

	2020	2019
Bank	**22,091**	29,003
Short-term investments	**215,204**	280,608
	237,295	309,611

Short-term investments are highly liquid, readily convertible into a known cash amount and subject to a low risk of change in value. They are entered into with national financial institutions and bear interest at the CDI rate. The CDI rate is between 80% and 102.17% in 2020 and between 80% and 101.53% in 2019.

9. Short-term investments earmarked for loans

	2020	2019
Short-term investments earmarked for loans	**4,526**	4,124
	4,526	4,124

The financial investment made in Banco de Brasília, classified in noncurrent assets totaling R$4,526 (R$4,124 in 2019), refers to a guarantee of the ICMS financing granted to the combined entity EMS as a government grant (Note 5.e). The amount can only be used to fully repay the final installments of the financing.

(In thousands of reais, unless otherwise stated)

10. Trade accounts receivable

	2020	2019
Trade accounts receivable	**1,090,713**	970,929
(-) Provision for impairment losses	**(15,632)**	(26,346)
Trade accounts receivable, net	**1,075,081**	944,583

At December 31, 2020 and 2019, the accounts receivable aging list was as follows:

	2020	2019
	949,511	831,032
Past due 0-3 months	**44,569**	88,452
Past due 3-6 months	**14,266**	33,235
Past due 6+ months	**82,367**	18,210
Total	**1,090,713**	970,929

Trade accounts receivable are recorded at net value and do not earn interest. Trade accounts receivable are reduced, through the use of an allowance account, to their probable realization value. The allowance for doubtful accounts was recorded in an amount considered sufficient by management to cover any losses on the realization of receivables.

Changes in the Group's allowance for doubtful accounts are as follows:

	2020	2019
January 1	**(26,346)**	(35,817)
Recognition of provision	**(12,627)**	(5,374)
Reversed provision	**23,024**	12,001
Write-off to losses	**317**	2,844
December 31	**(15,632)**	(26,346)

Trade accounts receivable, net of allowance for doubtful accounts, are denominated in the following currencies:

	2020	2019
Reais	**1,055,201**	935,397
Euro	**14,127**	4,031
US dollars	**5,753**	5,155
	1,075,081	944,583

(In thousands of reais, unless otherwise stated)

11. Inventories

	2020	2019
Raw material	**526,942**	400,158
Finished products	**378,730**	335,241
Products in process	**146,976**	128,862
Packaging and other materials	**69,561**	58,018
Advances to suppliers - third parties	**82,753**	46,191
Imports in transit	**41,824**	9,431
Provision for obsolescence	**(54,642)**	(50,140)
	1,192,144	927,761

The consumption of raw materials, consumables and changes in the balance of inventories of products in process and finished products included in the “Cost of Sales” totaled R$1,184,906 in 2020 (R$858,443 in 2019).

The criteria used to recognize the provision for obsolescence are detailed in Note 8.m.

	2020	2019
January 1	**(50,140)**	(33,124)
Recognition of provision	**(50,712)**	(39,411)
Reversal of provision	**31,944**	15,973
Write-offs	**14,266**	6,422
December 31	**(54,642)**	(50,140)

12. Taxes recoverable

	2020	2019
IRPJ and CSLL (a)	**108,991**	102,903
Contribution Tax on Gross Revenue for Social Integration Program (PIS) and Contribution Tax on Gross Revenue for Social Security Financing (COFINS) (b)	**343,286**	239,221
State VAT (ICMS) (c)	**226,832**	151,210
Federal Value-Added Tax (IPI)	**37,538**	36,150
Other	**9,765**	38,787
	726,412	568,271
Current amount	**376,910**	494,401
Noncurrent amount	**349,502**	73,870
	726,412	568,271

(a) This refers to prepaid income and social contribution taxes.

(b) This refers to PIS and COFINS credits on the acquisition of inputs generated as a result of the single-phase taxation system defined in current legislation.

(c) This refers to State VAT (ICMS) credits on the acquisition of inputs and capital expenditures.

(In thousands of reais, unless otherwise stated)

13. Other receivables

	2020	2019
Prepaid profit sharing (Note 29.a)	**234,900**	-
Advances to suppliers	**38,021**	28,816
Advances to related parties	**8,536**	9,973
Advances to employees	**10,629**	14,107
Sublease receivables	**5,900**	5,900
Other	**20,764**	14,946
	318,750	73,742
Current amount	**313,668**	67,786
Noncurrent amount	**5,082**	5,956
	318,750	73,742

14. Right-of-use assets and lease liabilities

a) Right-of-use assets

	Land and buildings	Vehicles and machinery	Furniture, fixtures, and equipment	Data Center	Total
Initial adoption - January 1, 2019	94,481	45,378	504	10,357	150,720
Acquisitions	9,057	7,177	942	-	17,176
Depreciation	(9,173)	(23,891)	(513)	(4,603)	(38,180)
Net book balance	94,365	28,664	933	5,754	129,716
December 31, 2019					
Cost	103,538	52,555	1,446	10,357	167,896
Accumulated depreciation	(9,173)	(23,891)	(513)	(4,603)	(38,180)
	94,365	28,664	933	5,754	129,716
Acquisitions and remeasurements	**16,524**	**56,114**	**1,857**	**-**	**74,495**
Transfers	**(6,215)**	**6,090**	**(124)**	**137**	**(112)**
Eliminations, net	**78**	**(7,770)**	**(20)**	**-**	**(7,712)**
Depreciation	**(9,455)**	**(27,991)**	**(1,257)**	**(4,713)**	**(43,416)**
Net book balance	**95,297**	**55,107**	**1,389**	**1,178**	**152,971**
December 31, 2020					
Cost	**113,847**	**114,759**	**3,179**	**10,494**	**242,279**
Accumulated depreciation	**(18,550)**	**(59,652)**	**(1,790)**	**(9,316)**	**(89,308)**
	95,297	**55,107**	**1,389**	**1,178**	**152,971**

(In thousands of reais, unless otherwise stated)

14. Right-of-use assets and lease liabilities (Continued)

b) Lease liabilities

	Land and buildings	Vehicles and machinery	Furniture, fixtures, and equipment	Data Center	Total
Initial adoption - January 1, 2019	95,547	45,378	257	10,605	151,787
Acquisitions and remeasurements	8,727	7,177	944	602	17,450
Interest incurred	10,825	3,601	56	849	15,331
Payments	(15,897)	(26,296)	(437)	(5,324)	(47,954)
Carrying value as at December 31, 2019	99,202	29,860	820	6,732	136,614
Current amount					45,309
Noncurrent amount					91,305
Opening balance at January 1, 2020	**99,202**	**29,860**	**820**	**6,732**	**136,614**
Acquisitions and remeasurements	**16,524**	**56,114**	**1,857**	**-**	**74,495**
Contract termination (a)	**(5,655)**	**(208)**	**-**	**-**	**(5,863)**
Interest incurred	**10,498**	**2,802**	**122**	**367**	**13,789**
Write-offs	**(837)**	**(3,420)**	**(10)**	**-**	**(4,267)**
Payments	**(15,798)**	**(30,063)**	**(1,317)**	**(5,239)**	**(52,417)**
Carrying value as at December 31, 2020	**103,934**	**55,085**	**1,472**	**1,860**	**162,351**
Current amount					**48,484**
Noncurrent amount					**113,865**

15. Property, plant and equipment

	Land and buildings	Vehicles and machinery	Furniture, fixtures, and equipment	Improvements and other	Work in progress (*)	Aircraft	Total
December 31, 2018							
Opening balance	320,391	289,526	26,660	141	108,856	219,104	964,678
Acquisitions	10,567	64,827	5,861	-	57,414	-	138,669
Write-offs	(3,838)	(12,197)	(1,808)	(10)	(4,142)	-	(21,995)
Transfers	27,354	55,475	1,419	-	(84,372)	-	(124)
Depreciation write-offs	1,755	7,838	1,078	4	-	-	10,675
Depreciation	(3,437)	(8,221)	(1,702)	-	-	(11,915)	(25,275)
Net book balance	352,792	397,248	31,508	135	77,756	207,189	1,066,628
December 31, 2019							
Cost	443,964	628,863	68,750	958	77,756	231,715	1,452,006
Accumulated depreciation	(91,172)	(231,615)	(37,242)	(823)	-	(24,526)	(385,378)
	352,792	397,248	31,508	135	77,756	207,189	1,066,628
December 31, 2019							
Opening balance	**352,792**	**397,248**	**31,508**	**135**	**77,756**	**207,189**	**1,066,628**
Acquisitions	**1,969**	**12,851**	**3,213**	**-**	**160,389**	**-**	**178,422**
Write-offs	**(725)**	**(3,028)**	**(98)**	**(135)**	**(2,711)**	**-**	**(6,697)**
Transfers	**33,978**	**82,918**	**2,392**	**-**	**(119,298)**	**-**	**(10)**
Depreciation	**(6,707)**	**(27,856)**	**(3,191)**	**-**	**-**	**(13,367)**	**(51,121)**
Net book balance	**381,307**	**462,133**	**33,824**	**-**	**116,136**	**193,822**	**1,187,222**
December 31, 2020							
Cost	**471,366**	**715,476**	**73,369**	**733**	**116,136**	**231,715**	**1,608,795**
Accumulated depreciation	**(90,059)**	**(253,343)**	**(39,545)**	**(733)**	**-**	**(37,893)**	**(421,573)**
	381,307	**462,133**	**33,824**	**-**	**116,136**	**193,822**	**1,187,222**

(*) Work in progress refers to investments in the expansion of production lines.

(In thousands of reais, unless otherwise stated)

15. Property, plant and equipment (Continued)

Novamed's most significant change in 2019 was in "work in progress" and refers to the acquisition of two tablet coating machines. These machines coat the tablets with a polymer film coating to mask the taste, ease the swallowing, increase the stability of the tablet pharmaceutical form and control the release rate of the active ingredient in the gastrointestinal tract. In February 2020, these were completely installed and transferred to the account machinery and equipment.

EMS's bank loans are secured by property, plant and equipment items in the amount of R$25,821 in 2020 and 2019.

16. Investments

	December 31, 2020			
	Gronin	**Globe**	**Other**	**Total**
Income (loss) for the year	**(266)**	**27,987**		
Interest in capital - %	**2.40%**	**25%**		
Subsidiary's equity	**194,833**	**263,292**		
Investment's initial balance at January 1, 2020	**4,715**	**66,688**	**467**	**71,870**
Capital increase	**6,400**	**-**	**-**	**6,400**
Other changes	**-**	**218**	**-**	**218**
Translation of foreign operation	**(566)**	**13,085**	**-**	**12,519**
Equity pickup	**(5,873)**	**(14,168)**	**-**	**(20,041)**
	4,676	**65,823**	**467**	**70,966**

	December 31, 2019			
	Gronin	**Globe**	**Other**	**Total**
Net income for the year	20,752	27,987		
Interest in capital - %	2.40%	25%		
Subsidiary's equity	188,693	263,292		
Investment's initial balance at January 1, 2019	4,263	53,210	458	57,931
Other changes	(1)	(23,228)	9	(23,220)
Translation of foreign operation	2,706	2,274	-	4,980
Equity pickup	(2,253)	34,432	-	32,179
	4,715	66,688	467	71,870

(In thousands of reais, unless otherwise stated)

17. Trade accounts payable

	2020	2019
Foreign suppliers	**316,293**	104,425
Domestic suppliers	**150,887**	94,024
Service suppliers	**46,174**	57,486
	513,354	255,935

18. Loans and financing

	Interest rate	Maturity	2020	2019
Banco Regional de Brasília - ICMS financing	25% of INPC (a)	December 2031	**8,055**	6,131
Brazilian Development Bank (BNDES)	(b)	March 2020 to March 2026	**112,325**	32,266
Brazilian Development Bank (BNDES)	3.5% p.a. (c)	September 2020	**-**	1,244
Brazilian Development Bank (BNDES)	TJLP + 1.5% p.a. (d)	September 2020	**-**	17,054
Brazilian Development Bank (BNDES)	TR + 1.5% p.a. (e)	October 2020	**-**	14,740
Brazilian Development Bank (BNDES)	TJLP (f)	September 2020	**-**	156
Brazilian Development Bank (BNDES)	TJLP + 1.5% p.a. (g)	August 2020	**7,593**	18,983
Brazilian Development Bank (BNDES)	Selic + 1.7% p.a. (h)	August 2020	**3,536**	8,767
Brazilian Development Bank (BNDES)	TJLP (i)	August 2020	**49**	122
FINEP	TJLP + 2.0% p.a. (j)	April de 2023	**28,483**	40,707
FINAME	1.21% p.a. to 3.23% p.a. and Libor + 0.35% p.a. (k)	June to October 2021	**234**	2,822
FINAME	TJLP + 3.50% p.a. (l)	December 2021	**-**	961
Finance Lease	1.21% p.a. to 3.23% p.a. and Libor + 0.35% p.a. (m)	February 2020 to May 2023	**242,823**	193,013
			403,098	336,966
Current amount			**59,028**	100,689
Noncurrent amount			**344,070**	236,277

Annual effective rate.

TJLP - Long-Term Interest Rate

TR - Moeda BNDES 018 (Currency BNDES 018).

Selic - Moeda BNDES 143 (Currency BNDES 143).

INCP - National Consumer Price Index - INPC | IBGE.

IPCA - Extended Consumer Price Index - IPCA. | IBGE

18. Loans and financing (Continued)

(a) Banco Regional de Brasília - refers to a credit benefit granted to the Group under the Federal District Fostering Program for the Sustainable Integrated Economic Development (PRÓ-DF), up to R$458,638 (original value).

Each installment payment corresponds to an equivalent 70% of the tax credit recorded in connection with the levy of State VAT (ICMS) on the import of organic chemicals and raw materials, among others, by an EMS S.A. unit located in the Federal District.

The amount is financed through BRB and has a grace period of 300 months (25 years) from the date of each installment released, according to Ordinance No. 182, of May 19, 2009 - Published in the DF State Register No. 097 on May 21, 2009.

The amounts are subject to charges corresponding to 25% of the National Consumer Price Index (INPC), and the charges computed from January to December each year are payable every January of the following year.

The financing is guaranteed by investments made by the Group in CDBs issued by BRB, which bear interest of 97% of the fluctuation of the CDI rate, in an amount equivalent to 10% of the value of each credit installment released, which can only be used to fully repay the final installments; the amount of the financial investment was R$4,526 as at December 31, 2020 (R$4,124 as at December 31, 2019).

It is agreed that the credit benefit may be cancelled, and the creditor (Banco BRB) has the right to declare the advanced maturity of the credit instrument, with the total debt being immediately payable, in the following cases: (i) the Group fails to comply with the obligations under the contract and the legislation of PRO/DF; (ii) the Company's status with the tax registry of the federal revenue service and the federal district's finance department becomes irregular; (iii) the property intended for the implementation of the manufacturing unit is used for residential purposes; and (iv) the activities of the project subject to the incentive are discontinued.

The economic benefit (government grant), calculated as the difference between the market rate on the date the financing is released and the interest rates obtained (prefixed curve (PRE x DI) of the BM&F), is recognized as deferred revenue and recorded in the statement of profit and loss on a straight-line basis according to the maturity of each amount released. As at December 31, 2020, deferred revenue recognized by the Group was R$3,497 (R$19,032 as at December 31, 2019).

18. Loans and financing (Continued)

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

In 2014 the PRÓ-DF program was replaced with a new program introduced by the Federal District through Law No. 5017, of January 18, 2013, namely Incentivo ao Desenvolvimento Econômico, Ambiental e Social (IDEAS, Fostering Economic, Environmental and Social Development).

In 2019, the Group had no movements that supported the recognition of gains from the grant, and received a R$4.079 release referring to the ICMS benefit.

In 2020, the Company had movements totaling R$2,052 that supported the recognition of gains from the grant, and received a R$3,974 release referring to the ICMS benefit.

(b) The balance refers to loans EMS obtained from BNDES as shown below:

(i) R&D agreement for a line of credit totaling R$75,712, which will be released in sub-credits based on the rendering of accounts. The outstanding amount is R$6,510, subject to interest of TJLP + 1.75% and 2.25% p.a. and final payment on March 15, 2026.

(ii) Storeroom Reconstruction Contract, financing granted by the National Bank for Economic and Social Development (BNDES), up to R$81,363, divided into two sub-credits according to the rendering of accounts.

(a) Sub-credit "A" - in the amount of R$43,283 for the expansion and renovation of an industrial unit, including the production of liquid and semi-solid drug formulations, packaging lines and storeroom, in the city of Hortolândia, SP.

The outstanding amount is R$42,163, subject to interest of IPCA* 1.36% p.a.* 1.79% p.a., and final payment on February 15, 2027.

(b) Sub-credit "B" - R$38,080 for the implementation of packaging lines in the EMS production complex, located in Hortolândia. The outstanding balance is R$38,846, subject to interest of IPCA* 2.16 p.a. * 1.79 p.a., and final payment on February 15, 2027.

18. Loans and financing (Continued)

(iii) Oncology Injectables Contract, financing granted by the National Bank for Economic and Social Development (BNDES), up to R$47,823, divided into two sub-credits according to the rendering of accounts.

(a) Sub-credit "A" - in the amount of R$34,413 for the implementation of a production unit to manufacture oncology injectables in the city of Hortolândia, SP. The outstanding amount is R$19,342, subject to interest of IPCA* 1.36% p.a.* 1.79% p.a., and final payment on February 15, 2027.

(b) Sub-credit "B" - R$13,410 (R$5,384 released) for the acquisition of imported machinery and equipment with no domestic equivalent required for the implementation of the project. The outstanding amount is R$5,464, subject to interest of IPCA* 2.16 p.a.* 1.79 p.a., and final payment on February 15, 2027.

(c) Contract 13.2.0668.1 - Financing agreement for the acquisition of national equipment for Novamed’s new plant built in Manaus and opened in 2014 - Subcredit A. Contract settled in 2020.

(d) Contract 13.2.0668.1 - Financing agreement for building Novamed’s new plant built in Manaus - Subcredit B. Contract settled in 2020.

(e) Contract 13.2.0668.1 - Financing agreement for the acquisition of foreign equipment for Novamed’s new plant in Manaus - Subcredit C. Contract settled in 2020.

(f) Contract 13.2.0668.1 - Financing agreement for the social project in the state of Amazonas - Subcredit D. Contract settled in 2020.

(g) Contract 14.2.0548.1 - Supplemental agreement for building Novamed’s new plant built in Manaus - Subcredit A.

(h) Contract 14.2.0548.1 - Supplemental agreement for the acquisition of foreign equipment for Novamed’s new plant in Manaus - Subcredit B.

(i) Contract 14.2.0548.1 - Financing agreement for the social project in the state of Amazonas - Subcredit C.

(j) Contract 09.16.0010.00 - This refers to the partial costing of expenses incurred in the preparation and implementation of the Innovation Strategic Plan approved and offered by FINEP, in accordance with the Disbursement Schedule. The principal of the debt will be subject to pro rata tempore compound interest by reference to the TJLP plus a 5% spread per annum (p.a.), less equalization equivalent to 3% p.a. The outstanding amount is R$28,483.

(k) Contracts with Banco Alfa for financing the acquisition of equipment for the expansion and modernization of production lines at the EMS plant in Hortolândia.

(In thousands of reais, unless otherwise stated)

18. Loans and financing (Continued)

(l) Contracts with Banco Alfa for financing the construction and implementation of a power substation for Novamed in Manaus. Contract settled in 2020.

(m) Finance Lease with JP Morgan for the purchase of an aircraft. The outstanding amount is R$242,823.

Loan and financing agreements have nonfinancial covenants that were fully complied with at year-end.

Novamed provided BNDES with the financed properties and bank guarantees in the amount of R$11,178 (R$72,220 in 2019).

The loans and financing recorded in current and noncurrent liabilities as at December 31, 2020 and 2019 mature as follows:

Year	2020	2019
2020	**-**	100,689
2021	**47,850**	55,284
2022	**74,242**	42,511
2023	**204,340**	122,567
2024 onwards	**76,666**	15,915
	403,098	336,966

Reconciliation between changes in financial position and cash flows from financing activities

	2020	2019
Item in cash flow from financing activities:		
Balance at December 31 – previous year	**336,965**	434,034
Loans raised	**107,917**	-
Loan amortization	**(97,803)**	(106,792)
Grant written off	**(2,052)**	-
Total cash flow used in financing activities	**8,062**	(106,792)
Other items:		
Interest expense and exchange losses	**65,823**	25,413
Payment of interest and exchange losses	**(7,752)**	(15,689)
Total other items	**58,071**	9,723
Balance at December 31 – current year	**403,098**	336,966

(In thousands of reais, unless otherwise stated)

19. Payroll and related charges

	2020	2019
Vacation payable	**63,841**	62,734
Profit sharing	**34,518**	20,368
Social charges on vacation pay and bonuses	**27,147**	24,978
Other	**2,973**	2,105
Total	**128,479**	110,185

20. Provision for losses on legal proceedings and judicial deposits

The Group is a party to legal and administrative proceedings filed with various courts and governmental agencies, in the ordinary course of business, involving tax, civil and labor claims and other issues.

Based on the opinion of its legal advisors, analyses of pending litigation and the amounts involved in past labor claims, management established a provision at an amount deemed to be sufficient to cover probable losses on the claims currently in progress, as follows:

a) Breakdown

At the reporting date, the Group recorded the following liabilities and corresponding judicial deposits, related to contingencies:

	Provision for losses on legal proceedings		Judicial deposits		Net balance	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
Tax and civil contingencies (i)	**65,791**	64,498	**(20,691)**	(18,340)	**45,100**	(46,158)
Labor and social security contingencies (ii)	**96,391**	85,937	**(30,060)**	(30,049)	**66,331**	(55,888)
	162,182	150,435	**(50,751)**	(48,389)	**111,431**	(102,046)

Changes in the provisions for contingencies are as follows:

	2020	2019
January 1	**150,435**	190,603
Recognition of provision	**23,850**	19,193
Monetary adjustment	**9,484**	9,054
Proceedings written off - payments	**(14,801)**	(41,730)
Reversal of provision	**(6,786)**	(26,685)
December 31	**162,182**	150,435

(In thousands of reais, unless otherwise stated)

20. Provision for losses on legal proceedings and judicial deposits (Continued)

a) Breakdown (Continued)

The full amount of the provision for contingencies is classified in noncurrent liabilities.

i) *Civil and tax claims*

In summary, this substantially refers to civil claims filed by customers for supposed noncompliance in relation to the drugs produced by the Group.

ii) *Labor claims*

The Group recorded a provision for contingencies based on an estimate of loss prepared by its legal advisors for labor claims in which it is a defendant, mainly involving overtime, compensation for work-related accidents and joint liability of outsourced companies.

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

iii) *Possible losses for which a provision was not recognized*

The Group is a party to tax, civil, and labor, claims involving the risk of possible losses, as assessed by management and its legal advisors, for which no provision was recognized, considering that the accounting practices adopted in Brazil do not require their recognition, according to the breakdown and estimate shown below:

	2020	**2019**
Tax (IR/CSLL) (*)	**2,008,885**	1,855,780
Labor	**191,603**	185,915
Civil (***)	**667,011**	107,123
Tax - other (**)	**344,444**	322,368
	3,211,943	2,471,186

20. Provision for losses on legal proceedings and judicial deposits (Continued)

a) Breakdown (Continued)

iii) *Possible losses for which a provision was not recognized (Continued)*

(*) This substantially refers to the Tax Notice issued by the Brazilian Revenue Service (RFB) under an administrative proceeding demanding the payment of Corporate Income Tax ("IRPJ"), Social Contribution Tax on Net Profit ("CSLL"), Contribution Tax on Gross Revenue for Social Integration Program (PIS), Contribution Tax on Gross Revenue for Social Security Financing (COFINS) and one-time fines plus charges, based on supposed non-deductibility of goodwill amortization in the merger of a company that would have artificially reduced the IRPJ and CSLL tax bases of EMS. Notwithstanding the regularity of the procedure adopted, the federal tax auditors disallowed the goodwill amortization expenses as they understood, in summary, that there was no business purpose for the acquisition of the equity interest including goodwill since the transaction took place "within the same economic group."

Assisted by its tax advisors specializing in this field, EMS classifies the chances of success as possible since, contrary to what the tax authorities claim, the transaction had a strong business purpose involving a joint venture with a foreign company, unrelated to the economic group, aiming at the Group's entry/consolidation in the European pharmaceutical market, especially because the legislation governing the drugs in question is extremely adherent to that of Brazil. In addition, the transaction was completed under the principle of legality, and all documents were properly registered and published, which demonstrates the inexistence of bad faith, recognized even by the 1st Panel of the Administrative Board of Tax Appeals (CARF), which canceled the tax notice. The company has recently obtained a court decision that upheld this favorable decision for the company (determining the annulment of the decision rendered at the highest administrative level, which had accepted an appeal from the National Treasury, which did not meet the requirements for appealability).

Additionally, Germed is challenging a Tax Notice arising from supposed PIS and COFINS matching credits incorrectly recorded on medicines purchased from third parties relating to the calendar years 2014 to 2017. The Adjudication Office of the Revenue Service partially granted the appeal at the first administrative level. Voluntary Appeal currently awaiting a decision by the Administrative Board of Tax Appeals (CARF). As at December 31, 2020, the updated amount is R$250,407 (R$241,453 in 2019).

(**) The Group has ICMS tax incentives granted by the State Government of Brasília. The Federal Supreme Court (STF) issued decisions on Direct Actions for Unconstitutionality, declaring the unconstitutionality of several state laws that granted ICMS tax benefits without prior agreement between the States.

Although it does not have ICMS tax incentives judged by the STF, the Group has been monitoring, in tandem with its legal advisors, the status of this matter in the courts to determine potential impacts on its operations and related impacts on the financial statements.

(***) This substantially refers to contract termination with disputes involving loss of profits, fines and interest. The amounts recorded in 2020 were revisited by the lawyers in order to reflect an expected discussion of a more realistic amount based on the evidence.

b) Uncertainty over tax treatments

As shown in the table above, the tax authorities claim that the Group does not meet all the criteria to deduct goodwill amortization for IRPJ and CSLL purposes. The Group believes that the goodwill arose from an economic-based transaction and, therefore, can be used for tax purposes. No amount was recognized in the accompanying consolidated financial statements because the Group believes that the tax rule used in the past was in compliance with applicable legislation, and believes that the Group's tax treatment may be successfully defended in court.

(In thousands of reais, unless otherwise stated)

20. Provision for losses on legal proceedings and judicial deposits (Continued)

b) Uncertainty over tax treatments (Continued)

The Group believes its provisions for tax liabilities are adequate for all fiscal years based on its evaluation of multiple factors, including tax law interpretations and past experience.

c) Exclusion of ICMS tax amounts from the PIS and COFINS tax bases

The Group informs that, in 2007, Germed issued a Writ of Mandamus aiming at the exclusion of ICMS from the PIS and COFINS tax bases. In May 2019, the company obtained a favorable decision on the appeal (STF). At the same time, the case became final and not subject to further appeal. In light of this, the Group started a procedure to identify amounts unduly paid as of 2002 and to claim the related reimbursement.

21. Income and social contribution taxes

a) Deferred income and social contribution taxes

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available to offset temporary differences/tax losses, based on projections of future profits prepared considering internal assumptions and future economic scenarios, which may, therefore, change.

The changes in and sources of deferred income and social contribution taxes in 2020 and 2019 are as follows:

	Balance at 12/31/2019	Recognized in P&L	Balance at 12/31/2020
Provision for legal proceedings	45,880	**3,233**	**49,113**
Provision for items billed and not shipped (cut-off)	25,833	**18,764**	**44,597**
Provision for impairment losses	2,144	**3,159**	**5,303**
Provision for obsolescence	16,661	**1,797**	**18,458**
Provision for profit sharing	6,781	**4,636**	**11,417**
Provision for free samples	4,777	**(786)**	**3,991**
Provision for leased vehicles	946	**(618)**	**328**
Other provisions	22,629	**(23,655)**	**(1,027)**
Gain on bargain purchase - Multilab	(17,406)	**-**	**(17,406)**
Provision for deferred exchange differences for tax purposes	(8,349)	**(5,224)**	**(13,572)**
Provision for interest on intercompany loans	(32,139)	**32,139**	**-**
Grant revenue	1,417	**-**	**1,417**
Lease IFRS16	1,917	**10,311**	**12,228**
Provision for useful life recorded for corporate and tax purposes		**(22,301)**	**(22,301)**
Deferred income and social contribution tax assets, net	71,091	**21,455**	**92,546**

(In thousands of reais, unless otherwise stated)

21. Income and social contribution taxes (Continued)

a) Deferred income and social contribution taxes (Continued)

	Balance at 12/31/2018	Recognized in P&L	Balance at 12/31/2019
Provision for legal proceedings	58,705	(12,825)	45,880
Provision for items billed and not shipped (cut-off)	42,657	(16,824)	25,833
Provision for impairment losses	7,039	(4,895)	2,144
Provision for obsolescence	13,311	3,350	16,661
Provision for profit sharing	10,281	(3,500)	6,781
Provision for free samples	1,627	3,150	4,777
Provision for leased vehicles	157	789	946
Other provisions	14,804	7,825	22,629
Gain on bargain purchase - Multilab	(18,168)	762	(17,406)
Provision for deferred exchange differences for tax purposes	2,409	(10,758)	(8,349)
Provision for interest on intercompany loans	-	(32,139)	(32,139)
Grant revenue	-	1,417	1,417
Lease IFRS16	-	1,917	1,917
Deferred income and social contribution tax assets, net	132,822	(61,731)	71,091

	2020	2019
Deferred income and social contribution taxes - assets	**124,201**	88,059
Deferred income and social contribution taxes - liabilities	**(31,655)**	(16,968)
Net effect	**92,546**	71,091

b) Current income and social contribution taxes

Reconciliation of income and social contribution tax expenses is shown below:

	2020	2019
Income before income and social contribution taxes	**1,520,073**	1,592,246
Tax incentives - ICMS	**(204,852)**	(138,402)
IRPJ and CSLL at local rates (34%)	**(447,175)**	(494,307)
Equity pickup	**(6,814)**	10,941
Workers’ Support Program (PAT)	**435**	253
Technological innovation (R&D) Law No. 11196/05 (EMS)	**8,623**	2,491
75% reduction in income tax from grants (Novamed)	**140,993**	118,452
Capital grant	**27,552**	11,633
Reinvestment	**9,176**	6,385
Other additions / exclusions	**(39,958)**	(11,893)
IRPJ and CSLL taxes on the statement of profit and loss	**(307,168)**	(356,045)
Current income and social contribution taxes	**(328,623)**	(294,314)
Deferred income and social contribution taxes	**21,455**	(61,731)
IRPJ and CSLL taxes on the statement of profit and loss	**(307,168)**	(356,045)
Effective rate	**20,72%**	22.36%

(In thousands of reais, unless otherwise stated)

21. Income and social contribution taxes (Continued)

c) Income and social contribution taxes payable

	2020	2019
Income Tax payable	**26,854**	50,864
Social contribution tax payable	**20,704**	18,616
	47,558	69,480

Changes in income and social contribution taxes payable are shown below:

	2020	2019
Initial balance for the year	**69,480**	55,704
(+) Provision for current IR/CS in the year	**328,624**	294,314
(+) Overpaid IR/CS		4,061
(-) Amounts offset against federal taxes	**(109,658)**	(69,973)
(-) Amounts prepaid/paid in the period	**(240,888)**	(214,626)
(=) Balance at end of year	**47,558**	69,480

22. Taxes in installments

	2020	2019
Installment payment - Law No. 11941/09 (i)	**54,349**	67,189
ICMS installment payment (iii)	**3,918**	30,443
ICMS installment payment (ii)	**22,834**	3,918
	81,101	101,550
Current amount	**26,009**	25,636
Noncurrent amount	**55,092**	75,914

(i) In November 2009, the Group and its subsidiary EMS Sigma Pharma joined REFIS IV, a program for the payment in installments and settlement of tax debts. The balance included in instalment payments are subject to update based on the Selic rate. Joining the program aimed at equalizing and settling tax liabilities by means of a special installment payment system for tax obligations. The federal taxes (PIS, COFINS, IRPJ and CSLL) and social security taxes that were under legal dispute were included in this program, under the 180-month installment option, which granted the Group a partial amnesty of 60% of the fine, 20% on one-time fines and a 25% reduction in interest on the original debt amount. Adherence to the installment payment program was consolidated by the Federal Revenue of Brazil and the Office of the General Counsel for the Federal Treasury in July 2011. The principal amount of the consolidated debt was R$23,922 (of EMS S.A.) and R$1,193 (of Sigma Pharma).

In December 2013, the Group requested the installment payment of past debts as permitted under the so-called Reabertura da Lei 11.941/2009 (Reopening under Law No. 11941/2009). As at December 31, 2016, adherence to the installment payment program is pending consolidation.

(In thousands of reais, unless otherwise stated)

22. Taxes in installments (Continued)

In August 2014, the Group applied for the installment payment of debts in accordance with Law No. 12996/2014, which included amounts not previously paid in installments, under the 120-month installment option, which granted the Group a partial amnesty of 70% on late payment and automatic fines, 25% on one-time fines, 30% on default interest, and 100% on the value of the legal charge. Adherence to the installment payment program was consolidated by the Federal Revenue of Brazil in July 2016. The principal amount of the consolidated debt was R$1,762 (of EMS S.A.) and R$51 (of Sigma Pharma).

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

(ii) Adherence to the ICMS installment payment before the Government of the Federal District was in the second half of 2007, to settle ICMS debts generated by the disallowance of credits considered undue by the tax authorities, which reduced the balance payable for this tax. The down payment totaling R$435 was split by the Group into 36 monthly successive installments, the first maturing in May 2007. The remaining balance is payable in full in the month following the last installment payment. Each installment will be subject to monetary adjustment by reference to the INPC rate plus simple interest of 1% per month throughout the installment payment period.

(iii) Installment payment of taxes relating to assets written off in November 2018, referring to ICMS credits recorded on the purchase/receipt of goods that burned up in the large fire that hit the distribution and storeroom areas of the EMS main office in Hortolândia, State of São Paulo, on October 20, 2018. The Group paid R$634 in 60 monthly successive installments, the first maturing in January 2019. Each installment will be subject to monetary adjustment by reference to the Selic rate plus simple interest of 2% per month throughout the installment payment period.

(a) The balance of taxes in installments as at December 31, 2020 and 2019 is:

	Consolidated	
	2020	**2019**
Principal	**55,515**	71,956
Interest	**25,586**	29,594
	81,101	101,550

23. Other payables

	2020	**2019**
Advances from customers	**37,662**	41,452
Third-parties services	**20,344**	27,652
Land payable	**12,061**	12,061
Advances from customers - related parties (Note 29.a)	**4,840**	274
Exclusive right	**3,867**	5,333
Insurance on leased vehicles	**1,434**	3,579
Employees	**1,270**	1,410
Project expenses	**1,011**	3,438
Other	**69,310**	41,911
	151,799	137,110
Current amount	**135,871**	131,776
Noncurrent amount	**15,928**	5,334

(In thousands of reais, unless otherwise stated)

24. Equity

a) Capital

On July 3, 2020 Novamed's shareholders approved the capital increase with tax incentive reserves in the amount of R$526,828 through the issuance of 526,828,255 units of interest.

Subscribed and paid-in capital is R$863,524 as at December 31, 2020 (R$336,696 as at December 31, 2019), held as follows:

12/31/2020:

Shareholder/Unitholder	EMS S.A	Germed	Novamed	Nova Química	CPM	EMS Sigma	Legrand	Luxbiotech	Monteresearch	Multilab	Rio Biopharmaceuticals
NC Participações S.A.	19,800,000	-	-	-	-	-	-	-	-	-	-
Germed Farmacêutica LDA.	200,000	-	-	-	-	-	-	-	-	-	-
Carlos Eduardo Sanchez	-	-	424,157,441	-	-	-	-	-	-	-	-
Leonardo Sanchez Secundino	-	-	70,692,907	-	-	-	-	-	-	-	-
Marcus Vinicius Sanchez Secundino	-	-	70,692,907	-	-	-	-	-	-	-	-
Saltmont Empreendimentos e Participações Ltda.	-	5,239,097	-	49,500,002	-	-	-	-	-	-	-
Saltriver Empreendimentos e Participações Ltda.	-	5,034,644	-	8,250,000	-	-	-	-	-	-	-
Global Energy Fundo de Investimento Participações	-	-	-	8,250,000	-	-	-	-	-	-	-
EMS S.A.	-	-	-	-	64,205,000	7,662,451	136,464	97,516,581	90,000	-	3,308
NC Participações S.A.	-	-	-	-	400,000	77,398	1,379	206,158	-	-	-
Novamed Fabricação de Produtos Farmacêuticos Ltda.	-	-	-	-	-	-	-	-	-	685,213,744	-
	20,000,000	10,273,741	565,543,255	66,000,002	64,605,000	7,739,849	137,843	97,722,739	90,000	685,213,744	3,308

(In thousands of reais, unless otherwise stated)

24. Equity (Continued)

a) Capital (Continued)

12/31/2019:

Shareholder/Unitholder	EMS S.A	Germed	Novamed	Nova Química	CPM	EMS Sigma	Legrand	Luxbiotech	Monteresearch	Multilab	Rio Biopharmaceuticals
NC Participações S.A.	19,800,000	-	-	-	-	-	-	-	-	-	-
Germed Farmacêutica LDA.	200,000	-	-	-	-	-	-	-	-	-	-
Carlos Eduardo Sanchez	-	-	424,157,441	-	-	-	-	-	-	-	-
Leonardo Sanchez Secundino	-	-	70,692,907	-	-	-	-	-	-	-	-
Marcus Vinicius Sanchez Secundino	-	-	70,692,907	-	-	-	-	-	-	-	-
Saltmont Empreendimentos e Participações Ltda.	-	5,239,097	-	49,500,002	-	-	-	-	-	-	-
Saltriver Empreendimentos e Participações Ltda.	-	5,033,644	-	8,250,000	-	-	-	-	-	-	-
Global Energy Fundo de Investimento Participações	-	-	-	8,250,000	-	-	-	-	-	-	-
EMS S.A.	-	-	-	-	64,205,000	7,662,451	136,464	97,516,581	90,000	-	3,308
NC Participações S.A.	-	-	-	-	400,000	77,398	1,379	206,158	-	-	-
Novamed Fabricação de Produtos Farmacêuticos Ltda.	-	-	-	-	-	-	-	-	-	685,213,744	-
	20,000,000	10,272,741	565,543,255	66,000,002	64,605,000	7,739,849	137,843	97,722,739	90,000	685,213,744	3,308

24. Equity (Continued)

b) Capital reserve

Goodwill reserve on merger

This refers to the matching entry of the merged goodwill, net of the difference between its actual value and the tax benefit generated by its amortization, which arises from the merger of shares of the combined entity EMS Investimentos S/A. Said reserve may be capitalized in future resolutions by the Meeting.

c) Income reserve

Tax incentive reserve

The Group has a line of credit government grant under the Federal District Fostering Program for the Sustainable Integrated Economic Development (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 revenue and recorded in the statement of profit and loss for equal amounts based on the maturity of each loan. A substantial part of the loan was settled and the respective grant revenue was recognized in the statement of profit and loss for the year and subsequently transferred to tax incentive in equity, as an income reserve in 2014. However, the auction to settle the residual value has not taken place yet. In 2016, the amount of R$3,003 was realized in connection with the settlement of the Ideas Program.

The combined entity Novamed has a tax incentive that reduces by 75% the amount of income and social contribution taxes on part of its operations according to Decree-Law No. 1598/77, and an incentive that aims to fully exempt the payment of ICMS (State VAT) on the sale/shipment of some products pursuant to Law No. 2826/2003.

At Novamed, the amount recognized as a tax incentive reserve as at December 31, 2020 is R$345,400 (R$256,854 in 2019), comprising R$204,852 (R$138,402 in 2019) in ICMS tax incentives and R$140,548 (R$118,452 in 2019)) referring to the incentive that reduces income and social contribution taxes by 75%.

Legal reserve

The legal reserve is recognized by listed companies under Brazilian Corporation Law and the Bylaws, based on 5% of net income for the year, limited however to 20% of total capital or 30% of the balance of capital plus reserves.

(In thousands of reais, unless otherwise stated)

24. Equity (Continued)

c) Income reserve (Continued)

As at December 31, 2020 and 2019, the Group did not recognize the amount of 5% of the net income for the year as part of the legal reserve, since it reached the limit of 20% of capital, as determined by article 193 of Law No. 6404/86.

Retained profits

The income reserve is recognized with the balance of net income for 2020 and 2019 after the appropriation of dividends and the recognition of a legal reserve. The amount of retained earnings in previous years was used for profit sharing, as determined by the General Shareholders' Meeting. The remaining balance of the income reserve will be distributed to the shareholders in the following year, as approved at the meeting.

d) Dividends (in listed companies)

The bylaws of the Grupo NC companies define the distribution of a mandatory minimum dividend of 25% of net income adjusted in accordance with corporate law, as follows:

In 2020	EMS S/A	Nova Química Farmacéutica S.A	Total
Net income for the year	113,544	57,403	170,987
Capital grant	(46,822)	-	(46,822)
(-) Recognition of tax incentive reserve	-	(4,463)	(4,463)
Base income for dividend calculation	66,762	52,940	
Minimum mandatory dividend (25%)	16,691	13,235	29,926
Supplementary dividends distributed	173,778	-	173,778
Total dividends proposed and paid in the year	190,469	13,235	203,704

In 2019	EMS S/A	Nova Química Farmacéutica S.A	Total
Net income for the year	417,116	67,824	484,940
Capital grant	(34,214)	-	(34,214)
(-) Recognition of legal reserve	-	(1,704)	(1,704)
Base income for dividend calculation	382,902	66,120	449,022
Minimum mandatory dividend (25%)	95,726	16,530	112,256
Supplementary dividends distributed	-	-	-
Distribution of income reserve from prior years	22,014	-	22,014
Total dividends proposed and paid in the year	117,740	16,530	134,270

(In thousands of reais, unless otherwise stated)

24. Equity (Continued)

d) Dividends (in listed companies) (Continued)

Changes in dividends payable:

	2020	2019
Opening balance	**552,589**	844,209
(+) Supplemental dividends payable, as approved in meetings	**187,013**	97,874
(+) Minimum mandatory dividend	**601,323**	112,256
(-) Payments	**(1,174,867)**	(501,750)
(=) Balance at end of year	**166,058**	552,589

e) Allocation of profit (loss) for the year - limited liability companies

According to the articles of association of each entity, the result for the year will be allocated after approval by the Company's partners at the shareholders' meeting. Before the meeting allocating the result for the year, it will remain recorded as retained earnings.

As at December 31, 2020, Germed distributed dividends in the total amount of R$226,118 (R$2,963 as at December 31, 2019).

As at December 31, 2020, Novamed recorded dividends in the amount of R$349,732 (R$75,860 in 2019) and distributed dividends in the amount of R$349,732 (R$411,000 in 2019).

25. Net operating revenue

	2020	2019
Gross sale of products, less trade discounts	**6,359,692**	5,260,104
Sales taxes	**(1,126,824)**	(722,347)
Sales returns	**(248,125)**	(199,580)
	4,984,743	4,338,177

At Novamed, based on the "Regime Especial de Industrialização por Encomenda" (Manufacture to Order), a special regime of industrialization by order used as part of its production process obtained from the State of São Paulo and approved by the Government of Amazonas, the Company sends semi-finished products to be packed by a related party. These products then symbolically return to the Company and are physically sent as requested for storage at the third-party logistics provider, from where it will be shipped upon sale. Revenue is recognized when control of products and goods is transferred to the end customer.

(In thousands of reais, unless otherwise stated)

26. Costs and expenses broken down by nature

	2020	2019
Raw material and supplies	**(1,184,906)**	(858,443)
Payroll and related charges	**(750,524)**	(706,122)
Third-party services - legal entities	**(243,086)**	(285,010)
Advertising costs	**(165,073)**	(202,794)
Social security costs	**(172,089)**	(160,365)
Transportation expenses	**(168,064)**	(144,230)
Other employee benefits	**(87,162)**	(88,891)
Samples	**(107,797)**	(79,690)
Legal benefits	**(61,400)**	(57,689)
Cleaning and office supplies	**(64,026)**	(57,183)
Travel/accommodation and meals	**(27,149)**	(55,228)
Provision for losses on legal proceedings	**(6,746)**	49,369
Third-party services - maintenance and repair	**(58,390)**	(46,476)
Electricity, water and telephone	**(28,614)**	(34,034)
Other income (expenses)	**(28,696)**	(24,079)
Depreciation, amortization and impairment charges	**(96,517)**	(67,678)
Profit sharing plan	**(34,059)**	(24,848)
Fuel and lubricants	**(18,568)**	(23,017)
Sales commissions	**(14,514)**	(9,450)
Provision for impairment losses	**10,714**	9,471
Donations	**(9,987)**	(7,075)
Operating lease	**(5,444)**	(5,018)
Amortization of fair value	**(3,007)**	(2,587)
	(3,325,104)	(2,881,067)

	2020	2019
Cost of sales	**(1,760,026)**	(1,409,426)
Selling expenses	**(433,924)**	(421,009)
Administrative expenses	**(1,131,154)**	(1,050,632)
	(3,325,104)	(2,881,067)

(In thousands of reais, unless otherwise stated)

27. Other income (expenses), net

	2020	2019
Other revenue		
Tax recovery	**47,012**	-
Insurance refund (*)	**-**	86,853
Insurance claim - Write-off of Inventories	**-**	48,393
Other	**33,896**	-
Total other revenue	**80,908**	135,246
Other expenses		
Taxes, charges and contributions (**)	**(99,900)**	(79,676)
Other	**-**	(6,025)
Total other expenses	**(99,900)**	(85,701)
Total other income (expenses), net	**(18,992)**	49,545

(*) This refers to the amount of damages payable to EMS, based on the conditions and contractual clauses of the insurance policy due to the accident on October 20, 2018. This balance substantially comprises the costs of inventories and fixed assets affected by the fire on that date.

(**) This substantially refers to fees and contributions relating to the Company's tax incentives paid to the Microenterprises and Small Businesses Fostering Fund (FMPES), to the University of the State of Amazonas (UEA), to the Tourism, Infrastructure, Services and Inner Amazonas Development Fostering Fund (FTI), to other funds or programs introduced by the government of Amazonas or to institutions that develop non-profit social, cultural and sporting programs and projects, as defined in Law No. 2826/03.

28. Finance income (costs), net

	2020	2019
Finance income		
Interest income on intercompany loans	**-**	94,528
Foreign exchange gains	**86,772**	33,201
Short-term investment yield	**10,366**	18,549
Other	**746**	12,714
Interest on trade notes receivable	**6,855**	4,959
Lease IFRS16	**-**	646
Total finance income	**104,739**	164,597
Finance costs		
Interest	**(26,309)**	(47,985)
Foreign exchange losses	**(155,325)**	(36,939)
Lease - interest payable	**(13,531)**	(14,465)
Other	**(9,332)**	(9,203)
Loss on trade receivables and discounts granted	**(775)**	(2,593)
Total finance costs	**(205,272)**	(111,185)
Finance income (costs), net	**(100,533)**	53,412

(In thousands of reais, unless otherwise stated)

29. Balances and transactions with related parties

Significant asset and liability balances at December 31, 2019 and 2018 as well as transactions affecting P&L for the years regarding transactions with related parties refer to the Group's transactions with its related parties, carried out under the conditions agreed upon by the parties, as follows:

Transactions with related parties

a) Balance at year-end, arising from sales/acquisitions of products

	2020	2019
Accounts receivable from related parties		
Lafiman Distribuidora de Medicamentos Ltd	**34,306**	31,576
Germed Farmacêutica Ltd	**-**	2,844
Snellog Armazens Gerais e Logistica Ltda	**1,544**	1,044
Other	**5,581**	2,121
	41,431	37,585

	2020	2019
Accounts payable to related parties		
Snellog Armazens Gerais e Logistica Ltda	**17,178**	14,738
Instituto Vita Nova	**2,699**	4,386
Other	**68**	-
	19,945	19,124

	2020	2019
Other receivables from related parties		
Prepaid profit sharing - Carlos Eduardo Sanchez	**176,174**	-
Prepaid profit sharing - Leonardo Sanchez Secundino	**29,363**	-
Prepaid profit sharing - Marcus Vinicius Sanchez Secundino	**29,363**	-
Instituto Vila Nova	**5,874**	6,870
Other	**2,662**	1,003
	243,436	7,873

	2020	2019
Other accounts payable to related parties		
Innoveren Pharma S/A	**4,840**	4,840
Other	**-**	500
	4,840	5,340

Accounts receivable from related parties mainly arise from sales transactions and mature within 60 days. Accounts receivable are unsecured and are not subject to interest.

These transactions were carried out under the terms and conditions agreed upon by the related parties.

(In thousands of reais, unless otherwise stated)

29. Balances and transactions with related parties (Continued)

b) Dividends payable

	2020	2019
Carlos Eduardo Sanchez		-
Saltmont Empreendimentos e Participações Ltda.	**49,950**	165,633
Saltriver Empreendimentos e Participações Ltda.	**47,992**	159,138
NC Participações S.A	**21,672**	103,159
Saltmont Fundo de investimento	**20,376**	79,147
Germed Ltd	**19,278**	19,130
Global Energy	**3,395**	13,191
Saltriver Fundo de investimento	**3,395**	13,191
	166,058	552,589

c) Intercompany loans

	2020	2019
3Z Realty Desenvolvimento Imobiliario S.A	**-**	316,093
	-	316,093

The balance of loans receivable is subject to interest at a rate of 1%. In 2019, Management recognized interest receivable on intercompany loans that had not been recorded until the previous year. The effects from prior periods totaling R$68,851 (of a recorded amount totaling R$94,528) recognized in the statement of profit and loss for the year were deemed immaterial by management for retrospective recognition. Changes in intercompany loans are as follows:

	2020		2019	
	3Z Realty Desenvolvimento Imobiliario S.A.	**Total**	**3Z Realty Desenvolvimento Imobiliario S.A.**	**Total**
Balance at beginning of year	**316,093**	**316,093**	227,961	227,961
Loan amortization	**(306,310)**	**(306,310)**	(2,000)	(2,000)
PIS and COFINS	**4,396**	**4,396**	(4,396)	(4,396)
Carryforward IRRF on interest	**(14,179)**	**(14,179)**	-	-
Interest recognized	**-**	**-**	94,528	94,528
Balance at December 31	**-**	**-**	316,093	316,093

(In thousands of reais, unless otherwise stated)

29. Balances and transactions with related parties (Continued)

d) Intercompany loans payable

	2020	2019
Carlos Eduardo Sanchez	**15,256**	16,654
Total	**15,256**	16,654
Current amount	**4,396**	1,399
Noncurrent amount	**10,860**	15,255

The balance of loans payable is subject to interest at a rate of 2%. Changes in intercompany loans are as follows:

	2020	2019
Balance at beginning of year	**16,654**	-
Loans raised	**-**	16,000
Provision for interest	**(1,142)**	815
Payment of interest	**(256)**	(161)
Balance at December 31	**15,256**	16,654
Current amount	**4,396**	1,399
Noncurrent amount	**10,860**	15,255

e) Key management personnel compensation

Compensation paid and payable to key Management personnel, including salaries and charges, profit sharing and other benefits, represents 6.48% of payroll expenses for the year ended December 31, 2020 (4.92% as at December 31, 2019).

30. Insurance

The Group's insurance coverage against operational risks totals R$742,000 in 2020 (R$632,000 in 2019), and R$10,000 for third-party liability in 2020 and 2019. The Group does not anticipate any difficulties in renewing any of its insurance policies and believes such coverage to be reasonable in terms of amount and commensurate with the sector standards in Brazil.

The risk assumptions adopted, given their nature, are not part of the scope of an audit of financial statements; accordingly, they were not audited by our independent auditors.

31. Subsequent events

<u>Corporate restructuring</u>

Given the corporate restructuring strategy focused on the Group’s operating segments, approval was given to merge the total net assets of Nova Química Farmacêutica S.A. into Multilab Indústria e Comércio de Produtos Farmacêuticos Ltda. (Multilab). The merger is expected to be completed by the end of the first half of 2021.

Consequently, as of the date of the merger, the operating activities of Nova Química will be performed exclusively by Multilab.

<u>Profit sharing</u>

On March 4, 2021, the Company's partners approved and ratified the distribution of profits made on December 29, 2020 in the amount of R$349,732.

*   *   *

Luiz Carlos Borgonovi
Chief Executive Officer

Renata Manzatto Baldin Pineiro Alves
Officer

Wagner A. Nilo Paschoal
Accountant CRC-1SP145242/O-5