Combined Financial Statements

Grupo NC Farma

December 31, 2021
with Independent Auditor's Report

Grupo NC Farma

Combined financial statements

December 31, 2021

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 accounting practices adopted in Brazil

Independent auditor's report on combined financial statements

To 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, 2021, 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 combined financial statements referred to above present fairly, in all material respects, the Group's combined financial position as at December 31, 2021, and its combined financial performance and cash flows for the year then ended in accordance with accounting practices adopted in Brazil.

Basis for opinion

We conducted our audit in accordance with 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 of a matter - 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, 2021, 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.

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

The executive board is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting practices adopted in Brazil, and for such internal control as it 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, the executive board is responsible for assessing the Grupo NC'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 the executive board either intends to liquidate the Grupo NC or to its 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 the executive board.

- Concluded on the appropriateness of the executive board'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 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 represented the underlying transactions and events in a manner that achieves fair presentation.

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

Campinas, March 31, 2022.

ERNST & YOUNG
Auditores Independentes S.S.
CRC- 2SP027623/O

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

Grupo NC Farma

Combined statement of financial position
December 31, 2021 and 2020
(In thousands of reais)

	Note	2021	2020
Assets			
Current assets			
Cash and cash equivalents	8	**229,859**	237,295
Trade accounts receivable	10	**1,382,144**	1,075,081
Receivables from related parties	29	**42,560**	41,431
Inventories	11	**1,350,554**	1,192,144
Taxes recoverable	12	**604,028**	376,910
Other receivables	13	**60,482**	313,668
Total current assets		**3,669,627**	3,236,529
Noncurrent assets			
Financial investment earmarked for loans	9	**2,007**	4,526
Taxes recoverable	12	**639,023**	349,502
Deferred income and social contribution taxes	21.a	**127,669**	124,201
Judicial deposits	20	**54,878**	50,751
Other receivables	13	**5,076**	5,082
Investments	16	**467**	70,966
Right-of-use assets	14	**178,250**	152,971
Intangible assets		**32,599**	32,687
Property, plant and equipment	15	**1,260,636**	1,187,222
Total noncurrent assets		**2,300,605**	1,977,908
Total assets		**5,970,232**	5,214,437

	Note	2021	2020
Liabilities and equity			
Current liabilities			
Trade accounts payable	17	**531,160**	513,354
Trade payables to related parties	29	**23,541**	19,945
Loans and financing	18	**297,768**	59,028
Lease liabilities	14	**78,275**	48,484
Intercompany loans payable	29	**4,580**	4,396
Payroll and related charges	19	**140,421**	128,479
Taxes payable		**37,541**	29,631
Income and social contribution taxes payable	21.c	**104,884**	47,558
Taxes in installments	22	**28,222**	26,009
Dividends payable	29	**595,813**	166,058
Other payables	23	**137,196**	135,871
Total current liabilities		**1,979,401**	1,178,813
Noncurrent liabilities			
Loans and financing	18	**102,748**	344,070
Lease liabilities	14	**108,655**	113,865
Intercompany loans payable	29	**5,714**	10,860
Taxes in installments	22	**31,749**	55,092
Deferred income and social contribution taxes	21.a	**50,597**	31,655
Provision for losses on legal proceedings	20	**219,778**	162,182
Deferred revenue - government grants		**-**	3,497
Other payables	23	**14,195**	15,928
Total noncurrent liabilities		**533,436**	737,149
Equity	24		
Capital		**1,399,787**	863,524
Capital reserve		**164,019**	164,019
Tax incentive reserve		**762,504**	818,273
Legal reserve		**44,342**	57,545
Equity adjustment (OCI)		**17,921**	19,542
Income reserve		**1,015,000**	1,378,358
Equity attributable to controlling interests		**3,403,573**	3,301,261
Noncontrolling interests		**53,822**	(2,786)
Total equity		**3,457,395**	3,298,475
Total liabilities and equity		**5,970,232**	5,214,437

See accompanying notes.

Grupo NC Farma

Combined statement of profit or loss
Years ended December 31, 2021 and 2020
(In thousands of reais)

	Note	Combined 2021	Combined 2020
Net operating revenue	25	**5,713,898**	4,984,743
Cost of sales	26	**(1,825,274)**	(1,760,026)
Gross profit		**3,888,624**	3,224,717
Selling expenses	26	**(507,512)**	(433,924)
Administrative expenses	26	**(1,354,899)**	(1,131,154)
Equity pickup	16	**2,593**	(20,041)
Other income (expenses), net	27	**195,241**	(18,992)
Income before net finance income (costs) and taxes		**2,224,047**	1,620,606
Finance income	28	**325,477**	104,739
Finance costs	28	**(307,653)**	(205,272)
Finance income (costs), net		**17,824**	(100,533)
Income before income and social contribution taxes		**2,241,871**	1,520,073
Income and social contribution taxes	21.b	**(413,611)**	(307,168)
Net income for the year		**1,828,260**	1,212,905
Net income attributable to controlling interests		**1,813,030**	1,217,480
Net income attributable to noncontrolling interests		**15,230**	(4,575)

See accompanying notes.

Grupo NC Farma

Combined statement of comprehensive income
Years ended December 31, 2021 and 2020
(In thousands of reais)

	2021	2020
Net income for the year	**1,828,260**	1,212,905
Other comprehensive income	**(1,621)**	12,519
Total comprehensive income	**1,826,639**	1,225,424
Attributable to controlling interests	**1,811,409**	1,229,999
Attributable to noncontrolling interests	**15,230**	(4,575)

See accompanying notes.

Grupo NC Farma

Combined statement of changes in equity
Years ended December 31, 2021 and 2020
(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, 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:											
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
Tax incentive reserve paid into capital	24.a	**602,254**	**-**	**(602,254)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Capital increase		**9**	**-**	**-**	**-**	**-**	**(9)**	**-**	**-**	**-**	**-**
Impacts from merger of Nova Química – entry of new members	1	**(66,000)**	**-**	**(5,319)**	**-**	**(13,203)**	**1,258**	**(7,538)**	**(90,802)**	**90,802**	**-**
Changes in equity interests in subsidiary	1	**-**	**-**	**-**	**-**	**-**	**-**	**55,168**	**55,168**	**(55,168)**	**-**
Net income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**1,813,030**	**1,813,030**	**15,230**	**1,828,260**
Write-off of foreign operation upon translation		**-**	**-**	**-**	**(2,140)**	**-**	**-**	**-**	**(2,140)**	**-**	**(2,140)**
Cumulative translation adjustment	16	**-**	**-**	**-**	**519**	**-**	**-**	**-**	**519**	**-**	**519**
Allocation of net income for the year:											
Recognition of tax incentive reserve	24.c	**-**	**-**	**551,804**	**-**	**-**	**-**	**(551,804)**	**-**	**-**	**-**
Additional dividends from previous period, as approved in meeting		**-**	**-**	**-**	**-**	**-**	**(1,609,110)**	**-**	**(1,609,110)**	**-**	**(1,609,110)**
Proposed dividends	24.d	**-**	**-**	**-**	**-**	**-**	**(64,353)**	**-**	**(64,353)**	**-**	**(64,353)**
Transactions with noncontrolling interests		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,744**	**5,744**
Recognition of income reserve		**-**	**-**	**-**	**-**	**-**	**1,308,856**	**(1,308,856)**	**-**	**-**	**-**
Balance at December 31, 2021		**1,399,787**	**164,019**	**762,504**	**17,921**	**44,342**	**1,015,000**	**-**	**3,403,573**	**53,822**	**3,457,395**

See accompanying notes.

Grupo NC Farma

Combined statement of cash flows
Years ended December 31, 2021 and 2020
(In thousands of reais)

	Note	2021	2020
Cash flows from operating activities			
Income before income and social contribution taxes		**2,241,863**	1,520,073
Adjustments for:			
Depreciation and amortization	14 and 15	**109,501**	96,517
Right-of-use assets written off	14	**(5,616)**	3,445
Loss on disposal of property, plant and equipment	15	**4,430**	6,697
Set-up (reversal) of allowance for expected credit losses	10	**(4,972)**	(10,397)
Set-up (reversal) of inventory valuation allowance	11	**25,849**	18,768
Loss of equity interest		**45,355**	
Provision for legal proceedings	20	**68,294**	17,064
Set-up (reversal) of provision for returns		**5,599**	
Provision for interest		**34,706**	78,779
Equity pickup	16	**(2,593)**	20,041
Unrealized exchange gains (losses) on financing activities		**49,921**	(7,585)
Changes in assets and liabilities			
Trade accounts receivable	10	**(310,833)**	(117,946)
Accounts receivable from related parties	29	**(808)**	(3,846)
Inventories	11	**(187,444)**	(276,129)
Taxes recoverable	12	**(660,964)**	(268,245)
Other receivables	13	**22,742**	9,334
Contingencies and judicial deposits	20	**(21,289)**	(10,770)
Trade and other payables	17	**1,473**	250,685
Taxes payable		**7,910**	(30,312)
Trade payables to related parties	29	**3,814**	821
Taxes in installments	22	**(21,132)**	(20,450)
Cash from operating activities		**1,405,806**	1,276,544
Interest paid	18 and 29d	**(17,417)**	(8,008)
Income and social contribution taxes paid	21	**(201,257)**	(240,888)
Net cash flows from operating activities		**1,187,132**	1,027,648
Cash flows from investing activities			
Acquisition of PP&E and intangible assets	15	**(140,129)**	(181,159)
Intercompany loans received	29	**-**	306,310
Increase in noncontrolling interests	16	**(1,368)**	(6,400)
Receivable due to return/write-off of investment of non-subsidiary		**26,965**	-
Other investments		**6,262**	-
Net cash flows from (used in) investing activities		**(108,271)**	118,751
Cash flows from financing activities			
Financial investment (withdrawal) earmarked for loans		**2,519**	(402)
Loans and financing raised	18	**333,772**	107,917
Payment of lease liabilities	14	**(53,678)**	(52,418)
Payment of principal and interest on loans and financing	18	**(355,534)**	(97,803)
Payment of principal of intercompany loans	29	**(4,571)**	(1,142)
Dividends paid to Group shareholders/members	24	**(1,008,804)**	(1,174,867)
Net cash flows used in financing activities		**(1,086,296)**	(1,218,715)
Net decrease in cash and cash equivalents		**(7,435)**	(72,316)
Cash and cash equivalents at beginning of year	9	**237,295**	309,611
Cash and cash equivalents at end of year	9	**229,860**	237,295

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 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 March 11, 2020, the World Health Organization (WHO) declared the outbreak of Coronavirus Covid-19 a pandemic on a global scale. 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 led to impacts on the financial statements. The major economies of the world and the main economic blocs have implemented significant economic incentive packages to overcome the potential economic recession effectively produced by these measures to mitigate the spread of Covid-19.

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.

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. Until the date of authorization for issue of these financial statements, the following key measures were taken, including those of a social nature in 2021 and 2020:

- 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.

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)

- Implementation of temporary or permanent measures regarding the staff, in order to reduce payroll expenses in the medium term.
- 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.

To date, the Group's operations have not been significantly impacted by the COVID-19 pandemic. The Group's operating segment is considered essential and, therefore, its operations have not been interrupted. Local and/or state legislation are being observed in the entire industrial plant and administrative areas.

The Group's inventory levels remain normal and capable of maintaining production capacity within normal limits, with no interruption in the supply of inputs. In relation to receivables, the pharmaceutical sector is not currently experiencing an increase in delinquency and there has been no extension of maturities, thus not impacting receivables so far.

The Group is taking all appropriate measures to prevent the spread of COVID-19, as well as ensuring business continuity during the pandemic. Although the Group's operations have not been materially affected to date, management has no way of estimating or predicting the occurrence of future events related to the COVID-19 pandemic that could have an impact on the Group, but will continue with the monitoring and evaluation of actions to be taken.

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.

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

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

The combined financial statements of Grupo NC Farma are being presented for the sole 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.

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 term is of 15 years and production began on August 1, 2015.

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 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.

- 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.

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 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.
- 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.

(In thousands of reais)

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)

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.

On June 15, 2021, Multilab merged Nova Química, based on the net assets at book value assessed by independent consultants on May 31, 2021, in the amount of R$93,936. A total of 93,935,747 new units of interest were issued, at R$1.00 each, increasing Multilab's capital by this same amount, paid in by the new incoming members, former shareholders of Nova Química:

Members	Number of units of interest
Saltmont Fundo de Investimento em Participações Multiestratégia Investimentos no Exterior	70,451,811
Saltriver Fundo de Investimento em Participações Multiestratégia Investimentos no Exterior	11,741,968
Global Energy Fundo de Investimento em Participações Multiestratégia Investimentos no Exterior	11,741,968
	93,935,747

With entry of the new members in Multilab, the equity interest of 100% held by Novamed changed to 87.99%.

The objective of the merger was to streamline and combine administrative activities, as well as to achieve gains and operational synergy.

Merged net assets of Nova Química based on the balances at June 30, 2021 are summarized below:

(In thousands of reais)

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)

Description	Merged net assets
Cash and cash equivalents	5,888
Accounts receivable	5,914
Receivables from related parties	40,298
Inventories	1,634
Taxes recoverable	105,038
Judicial deposits	729
Deferred income and social contribution taxes	3,525
Property, plant and equipment	647
Right-of-use assets	3,450
Intangible assets	9
Other receivables	124
Lease liabilities	(3,577)
Trade and other accounts payable	(3,350)
Taxes payable	(449)
Dividends payable	(61,868)
Provision for losses on legal proceedings	(7,210)
	90,802

(In thousands of reais)

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:

	2021								
Shareholders/members (in number of shares/units of interest)	**EMS S.A (Consolidated)**	**Germed (Combined)**	**Novamed (Consolidated)**	**Multilab (Consolidated)**	**CPM (Consolidated)**	**EMS Sigma (Consolidated)**	**Legrand (Consolidated)**	**Luxbiotech (Consolidated)**	**Monteresearch (Consolidated)**
EMS S.A.	19,800,000				64,205,000	7,662,451	136,464	97,516,851	90,000
NC Participações S.A.	200,000				400,000	77,398	1,379	206,158	
Germed Farmacêutica LDA.									
Carlos Eduardo Sanchez			875,847,771						
Novamed Fabricação de Produtos Farmacêuticos Ltda.				167,390,504					
Leonardo Sanchez Secundino			145,974,629						
Marcus Vinicius Sanchez Secundino			145,974,629						
Saltmont Empreendimentos e Participações Ltda.		5,239,097							
Saltriver Empreendimentos e Participações Ltda.		5,033,644							
Saltmont Fundo Invest. Participações				17,140,453					
Saltriver Fundo Invest. Participações				2,853,571					
Global Energy Fundo de Investimento Participações				2,853,571					
Total	**20,000,000**	10,272,741	1,167,797,029	190,238,099	64,605,000	7,739,849	137,843	97,723,009	90,000

Grupo NC Farma

Notes to combined financial statements (Continued)
December 31, 2021 and 2020
(In thousands of reais)

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)

2020											
Shareholders/members (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)

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 - 2021	EMS S.A (individual)	Germed	Novamed (individual)	Multilab	CPM	EMS Sigma	Legrand	Luxbiotech	Monteresearch SRL	Rio Bio Pharmaceuticals, LLC	Eliminations	Combined
Current assets	2,307,329	399,129	1,953,358	422,201	80,299	7,483	285,484	48,678	21,735	2,968	(1,859,038)	3,669,626
Noncurrent assets	1,751,810	67,949	748,173	147,778	5,179	185,142	19,461	24,553	2,048	-	(651,488)	2,300,605
Current liabilities	2,723,493	62,693	290,150	138,571	1,996	178,493	102,280	141,565	10,502	138	(1,670,481)	1,979,400
Noncurrent liabilities	430,749	39,057	87,073	20,486	85	6,009	11,703	12,007	-	-	(73,733)	533,436
Equity	904,897	365,328	2,324,308	410,922	83,397	8,123	190,962	(80,341)	13,281	2,830	(766,312)	3,457,395

Statement of profit or loss - 2021	EMS S.A (individual)	Germed	Novamed (individual)	Multilab	CPM	EMS Sigma	Legrand	Luxbiotech	Monteresearch SRL	Rio Bio Pharmaceuticals, LLC	Eliminations	Combined
Net operating revenue	4,517,794	798,219	2,676,917	685,283	891	251,975	581,054	(4,518)	13,781	-	(3,807,498)	5,713,898
Cost of sales	(2,924,689)	(429,974)	(1,162,076)	(480,655)	(1,730)	(251,192)	(262,226)	(6,572)	(292)	-	3,694,132	(1,825,274)
Gross profit	1,593,105	368,245	1,514,841	204,628	(839)	783	318,828	(11,090)	13,489	-	(113,366)	3,888,624
Operating expenses	(1,202,990)	(115,338)	94,828	(46,652)	5,494	(2,736)	(84,955)	(44,781)	(33,602)	(22,183)	(220,056)	(1,672,971)
Finance income (costs), net	19,860	32	(3,027)	(201)	829	(164)	963	14	-	-	(482)	17,824
Income (loss) before taxes	409,975	252,939	1,606,642	157,775	5,484	(2,117)	234,836	(55,857)	(20,113)	(22,183)	(333,904)	2,233,477
Income and social contribution taxes	(94,957)	(86,992)	(171,080)	7,587	(742)	526	(74,424)	6,567	(96)	-	-	(413,611)
Net income (loss) for the year	315,018	165,947	1,435,562	165,362	4,742	(1,591)	160,412	(49,290)	(20,209)	(22,183)	(333,904)	1,819,866

(In thousands of reais)

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 - 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 or 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 (loss) 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

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)

Criteria for 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 Executive Board on March 31, 2022. Only the shareholders/members 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 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, guidance 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 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, 2021 and 2020 that have a significant risk of resulting in material adjustments in asset and liability balances within the next financial years 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;
- Notes 10 and 11 – recognition and measurement of provision for returns with effect on inventories and accounts receivable: key assumptions in determining the average period of return and profit margin;
- 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;
- 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.

5. Significant accounting policies (Continued)

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 or loss for the year.

5. Significant accounting policies (Continued)

b) Financial instruments

CPC 48 Financial Instruments is effective for years ended as of January 1, 2018. This standard contains three key categories for classifying and measuring financial assets: (i) amortized cost; (ii) fair value through other comprehensive income; and (iii) fair value through profit or loss for the year (residual category).

The Group carried out a detailed impact assessment on the adoption of the new standard and identified the following aspects:

CPC 48 presents an approach to classify and measure financial assets that reflects the business model in which the assets are managed and the cash flow characteristics. With respect to financial liabilities, it requires that the change in fair value of the financial liability designated at fair value through profit or loss, which is attributable to changes in the credit risk of that liability, be presented in other comprehensive income rather than in the statement of profit or loss, unless such recognition results in a mismatch in the statement of profit or loss.

Measurement

Financial assets and liabilities should initially be measured at fair value. The criteria to determine the fair value of financial assets and liabilities included (i) the quoted price in an active market or, in the absence thereof, and (ii) the use of valuation techniques that allow estimating the fair value on the transaction date, taking into account the value that would be negotiated between independent, knowledgeable and willing parties.

Subsequent measurement of financial assets and liabilities follows the fair value or amortized cost method, depending on the category. Amortized cost corresponds to:

- The initial amount recognized for the financial asset or liability;
- Minus repayments of principal; and
- Plus/minus accrued interest using the effective interest rate method.

The effects of subsequent measurement of financial assets and liabilities are allocated directly to P&L for the period. Noncurrent assets and liabilities with characteristics of financial instruments are initially recorded at their present value.

5. Significant accounting policies (Continued)

b) Financial instruments (Continued)

Recognition

Purchases or sales of financial assets (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset. Financial assets at fair value through profit or loss are initially recognized at fair value and transaction costs are charged to P&L. Loans and receivables are recorded at amortized cost.

Gains or losses arising from changes in the fair value of other financial assets measured at fair value through profit or loss are presented in P&L, under Revenues or Costs, respectively, in the period in which they occur.

Derecognition

A financial asset (or, when applicable, a part of a financial asset, or a part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognized when the obligation thereunder ceases to exist, i.e., when the obligation specified in the contract is discharged or canceled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

The Group's financial assets substantially include cash and cash equivalents, financial investment earmarked for loans, trade accounts receivable, and transactions with related parties. The Group’s financial liabilities include mostly trade accounts payable, lease liabilities, and transactions with related parties.

5. Significant accounting policies (Continued)

b) Financial instruments (Continued)

Derecognition (Continued)

The Group does not have hedge accounting transactions as of December 31, 2021 and 2020.

Offsetting

Financial assets or financial liabilities are offset and the net amount is reported in the statement of financial position only if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle them on a net basis, or to realize the asset and settle the liability simultaneously.

Other financial liabilities

Other financial liabilities are measured at amortized cost using the effective interest method.

The effective interest rate method is used to calculate amortized cost of a financial liability and allocate the interest expense over the related period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees and charges paid or received that are part of the effective interest rate, transaction costs and other premiums or discounts) over the estimated life of the financial liability or, when applicable, over a shorter period, for initial recognition of the net book value.

Impairment of financial assets

CPC 48 (IFRS 09) replaced the incurred loss model with a prospective expected loss model. This new approach requires significant judgment on how changes in economic factors affect expected credit losses, which will be determined based on weighted probabilities.

The allowance for expected credit losses is set up in an amount considered sufficient by management to cover possible risks on the customer portfolio and other receivables existing on the statement of financial position date. The criterion used to set up the allowance takes into account an assessment of the risk associated with operations and notes overdue for more than 120 days, in addition to the history of losses on receivables, adjusted for prospective factors specific to debtors and the economic environment.

5. Significant accounting policies (Continued)

b) Financial instruments (Continued)

Impairment of financial assets

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.

The Group also records provision for sales returns based on the history of its operations. The provision for returns is set up in accordance with the scope of the CPC 47 model, on recognition of the right to return. The calculation is made considering the average return period of 45 days over the annual return margin.

Cash and cash equivalents

Cash and cash equivalents comprise cash and financial investment balances with original short-term maturities, subject to insignificant risk of change in value and used in the management of short-term obligations.

Trade accounts receivable

These are accounted for at fair value and classified as trade accounts receivable as they represent fixed and determinable rights, not quoted in an active market. They are measured at amortized cost, not subject to interest, and are usually settled within a period of less than 90 days. The book value substantially represents the present value at the statement of financial position date.

Trade accounts payable

Trade accounts payable are obligations payable to suppliers for goods or services arising in the ordinary course of business. They are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. In practice, these obligations are usually recognized at the amount of the corresponding invoice.

5. Significant accounting policies (Continued)

c) 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 5.m.

d) Property, plant and equipment

Land and buildings mainly comprise plants and offices. Property, plant and equipment items 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 against profit or loss accounts, as incurred.

5. Significant accounting policies (Continued)

d) 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 in 2021 and 2020, as follows:

	Years
	2021 and 2020
Aircraft	15
Improvements	29
Buildings	47
Machinery	15
Vehicles	8
Furniture, fixtures, and equipment	14

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

The carrying amount of an asset is immediately written down to its recoverable amount when the carrying amount is higher than the estimated recoverable amount.

Any gain or loss arising on disposal 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 as Other operating income (expenses), net.

e) Intangible assets

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 Group has the intention and sufficient resources to complete the asset's development and use it or sell it. All other development costs are charged to P&L as incurred. After initial recognition, capitalized development costs are measured at cost, less accumulated amortization and any impairment losses.

5. Significant accounting policies (Continued)

e) Intangible assets

Other intangible assets

Other intangible assets that are acquired by the Group 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.

The estimated useful lives in 2021 and 2020 are as follows:

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

Amortization methods, useful lives and residual values are reviewed at each statement of financial position date and adjusted, if necessary.

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 software’s estimated useful life (three to five years).

Software maintenance costs are recognized as expenses, when incurred.

5. Significant accounting policies (Continued)

f) Impairment of nonfinancial 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, 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.

g) 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, to be depreciated, and in liabilities, with appropriation of financial charges, using the cumulative effect method, with first-time adoption 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 the inception of the contract, whether it was, or contained, a lease in accordance with ICPC 03 Supplementary Aspects of Leases. The Group now assesses whether a contract is or contains a lease based on the definition of lease described in Note 5.

5. Significant accounting policies (Continued)

g) 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.

5. Significant accounting policies (Continued)

g) Leases (Continued)

a) *As a lessee*

i) Leases classified as operating leases in accordance with CPC 06 (R2)
Previously, the Group classified property leases as operating leases pursuant to CPC 06 (R2). 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:

- 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(R2), 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.

5. Significant accounting policies (Continued)

g) Leases (Continued)

a) *As a lessee*

ii) Leases classified as finance leases in accordance with CPC 06 (R2)

As at December 31, 2018, the Group did not have leases classified as finance leases in accordance with CPC 06(R2).

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(R2), lease and sublease 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 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:

5. Significant accounting policies (Continued)

g) Leases (Continued)

c) *Impact on financial statements*

- 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

- 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 financial statements 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.

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, 2021. The discount rates are shown below:

	Contracts - 2020	**Contracts - 2021**
Within 1 year	4.81%	9.35%
Up to 2 years	5.40%	10.24%
Up to 5 years	6.89%	10.95%
Up to 10 years	8.19%	11.57%
Up to 20 years	9.19%	11.98%
More than 20 years	9.19%	11.98%

5. Significant accounting policies (Continued)

h) 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.

i) 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.

5. Significant accounting policies (Continued)

i) Revenue from contracts with customers--Continued

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.

j) 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.

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

k) 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.

5. Significant accounting policies (Continued)

k) Government grants (Continued)

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 or 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.

The effects of this calculation were recorded in the statement of profit or 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.

5. Significant accounting policies (Continued)

k) Government grants (Continued)

State Value Added Tax (ICMS) (Continued)

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 or loss, matched against income tax expense, then was transferred to the tax incentive reserve account, and cannot be distributed to the members.

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 Farmacêuticos 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).

5. Significant accounting policies (Continued)

l) Current and deferred income and social contribution taxes

Current and deferred income taxes comprise both income and social contribution taxes. Income tax is calculated at a rate of 15%, plus 10% surtax on taxable profit exceeding R$240, whereas social contribution tax is computed at a rate of 9% on taxable profit. These consider offset of income and social contribution tax losses, limited to 30% of annual taxable profit, if any.

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

Current and deferred income and social contribution tax charges are calculated based on tax laws enacted, or substantially enacted, at the statement of financial position date, when taxable profit is generated. 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.

5. Significant accounting policies (Continued)

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

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.

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

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.

5. Significant accounting policies (Continued)

l) 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 State Government* (Continued)

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 2021 and 2020 in connection with government grants should not impact the IRPJ and CSLL tax bases, which is why they were excluded from the Taxable Profit Control Register (LALUR) and from the CSLL Tax Base Computation Register (LACS).

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)

l) 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.

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.

The criteria for recognition of the major provisions are presented below:

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 5(b) - Impairment of financial assets. Accounts receivable from related parties are not included in the provision.

Provision for returns (Notes 10 and 11)

The provision for returns is set up in accordance with the scope of the CPC 47 model, on recognition of the right to return. The calculation is made considering the average return period of 45 days over the annual return margin.

5. Significant accounting policies (Continued)

m) Provisions (Continued)

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 be related to batches of drugs that are expired and that 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.

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).

5. Significant accounting policies (Continued)

o) Financial guarantees (Continued)

As at December 31, 2021 and 2020, 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.

p) Statement of cash flows

The statement of cash flows was prepared and is being presented in accordance with accounting pronouncement CPC 03 (IAS 7) – Statement of Cash Flows, issued by the Brazilian FASB (CPC), and reflects the changes in cash and cash equivalents that took place in the reported years.

6. New standards and interpretations

6.1. New or revised standards adopted for the first time in 2021

The Group adopted for the first time certain standards and amendments to standards effective for annual periods beginning on or after January 1, 2021. The Group decided against the early adoption of any other standard, interpretation or amendment issued that is not already in force.

Amendments to CPC 06 (R2), CPC 11, CPC 38, CPC 40 (R1), and CPC 48: Interest Rate Benchmark Reform

The amendments to CPC 38 and CPC 48 provide temporary reliefs which address the financial reporting effects when an interbank deposit certificate (CDI) rate is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
- Permit changes required by the reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued;

6. New standards and interpretations (Continued)

6.1. New or revised standards adopted for the first time in 2021 (Continued)

Amendments to CPC 06 (R2), CPC 11, CPC 38, CPC 40 (R1), and CPC 48: Interest Rate Benchmark Reform (Continued)

- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no impact on the Group's individual and consolidated financial statements. The Group intends to use the practical expedients in future periods if they become applicable.

Amendments to CPC 06 (R2): Covid-19 related rent concessions beyond June 30, 2021

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.

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. The amendment was intended to apply until June 30, 2021, but as the impact of the Covid-19 pandemic may continue, the CPC extended the period of application of this practical expedient to June 30, 2022. 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.

6. New standards and interpretations (Continued)

6.2. Standards issued but not yet effective (Continued)

The new and amended standards and interpretations issued but not yet in effect until the financial statements issue date are described below:

- Replacement of CPC 11 Insurance Contracts by CPC 50 Insurance Contracts;
- Amendments to IAS 1: Classification of liabilities as current or noncurrent;
- Amendments to IAS 8: Definition of accounting estimates;
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of accounting policies.

The Group is evaluating the impacts of the amendments issued by the IASB and intends to adopt these new standards and interpretations, if applicable, when they are issued by the CPC and become effective. However, no significant impacts are expected on the financial statements.

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, 2021 and 2020, the Group had no outstanding derivative transactions in its financial statements.

(In thousands of reais)

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:

	2021				2020		
	USD	**Euro**	**Yen**	**Reais**	**USD**	**Euro**	**Reais**
Trade accounts receivable (Note 10)	**2,298**	**1,033**	**-**	**17,841**	893	1,332	19,880
Trade accounts payable (Note 17)	**(45,320)**	**(2,423)**	**(882)**	**(268,974)**	(47,717)	(10,167)	(316,293)
Loans and financing (Note 18)	**(47,413)**	**-**	**-**	**(264,591)**	(46,724)	-	(242,823)
Net exposure	**(90,435)**	**(1,390)**	**(882)**	**(515,724)**	(93,548)	(8,835)	(539,236)

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 or loss considering the scenarios adopted for these transactions:

(In thousands of reais)

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 - 12/31/2021	Probable Amount	25% appreciation %	25% appreciation Amount	50% appreciation %	50% appreciation Amount
Increase in USD	Trade accounts receivable	**2,298**	**11,419**	**5.58**	**1,405**	**6.98**	**4,611**	**8.37**	**7,817**
Increase in EUR	Trade accounts receivable	**1,033**	**6,422**	**6.32**	**108**	**7.90**	**1,740**	**9.48**	**3,372**
Increase in USD	Trade accounts payable	**(45,335)**	**(252,919)**	**5.58**	**(55)**	**6.98**	**(63,297)**	**8.37**	**(126,541)**
Increase in EUR	Trade accounts payable	**(2,423)**	**(16,012)**	**6.32**	**697**	**7.90**	**(3,132)**	**9.48**	**(6,961)**
Increase in JPY	Trade accounts payable	**(882)**	**(43)**	**0.48**	**(385)**	**0.61**	**(591)**	**0.73**	**(597)**
Increase in USD	Loans and financing	**(47,413)**	**(264,591)**	**5.58**	**-**	**6.98**	**(66,148)**	**8.37**	**(132,295)**
		(92,722)	**(515,724)**		**1,770**		**(126,817)**		**(255,205)**

Risk	Type	Exposure in foreign currency	Original exposure (R$)	Effective rate – 12/31/2021	Probable Amount	25% devaluation %	25% devaluation Amount	50% devaluation %	50% devaluation Amount
Decrease in USD	Trade accounts receivable	**2,298**	**11,419**	**5.58**	**1,405**	**4.19**	**(1,801)**	**2.79**	**(5,007)**
Decrease in EUR	Trade accounts receivable	**1,033**	**6,422**	**6.32**	**108**	**4.74**	**(1,524)**	**3.16**	**(3,157)**
Decrease in USD	Trade accounts payable	**(45,335)**	**(252,919)**	**5.58**	**(55)**	**4.19**	**63,190**	**2.79**	**126,432**
Decrease in Euro	Trade accounts payable	**(2,423)**	**(16,012)**	**6.32**	**697**	**4.74**	**4,526**	**3.16**	**8,354**
Decrease in JPY	Trade accounts payable	**(882)**	**(43)**	**0.48**	**(385)**	**0.36**	**(278)**	**0.24**	**(170)**
Decrease in USD	Loans and financing	**(47,413)**	**(264,591)**	**5.58**	**-**	**4.19**	**66,148**	**2.79**	**132,296**
		(92,722)	**(515,724)**		**1,770**		**130,261**		**258,748**

Risk	Type	Exposure in foreign currency	Original exposure (R$)	Effective rate – 12/31/2020	Probable Amount	25% appreciation %	25% appreciation Amount	50% appreciation %	50% appreciation 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	Loans and financing	(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)

(In thousands of reais)

Risk	Type	Exposure in foreign currency	Original exposure (R$)	Effective rate – 12/31/2020	Probable Amount	25% devaluation %	25% devaluation Amount	50% devaluation %	50% devaluation 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	Loans and financing	(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

(In thousands of reais)

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, 2021 and 2020 is as follows:

	2021	2020
Cash and cash equivalents (Note 8)	**229,859**	237,295
Trade accounts receivable (Note 10)	**1,382,144**	1,075,081
Accounts receivable - related parties (Note 29)	**42,560**	41,431
Financial investment earmarked for loans (Note 9)	**2,007**	4,526
Other receivables (Note 13)	**65,557**	318,750
	1,722,127	1,677,083

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 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* (Continued)

Guarantees

The Group's policy is to provide financial guarantees only for the obligations of its subsidiaries and affiliates. As at December 31, 2021 and 2020, 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, 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. In 2021, such CRI was fully settled, thus ending the guarantee between the related companies.

  Additionally, the Company is a guarantor of another company's 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.

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.

(In thousands of reais)

7. Financial risk management (Continued)

b) Market risk (Continued)

v) *Liquidity risk* (Continued)

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	1 to 2 years	2 to 5 years	After 5 years
December 31, 2021					
Trade and other accounts payable	**(682,549)**	**(668,354)**	**(14,195)**	**-**	**-**
Trade payables to related parties	**(23,541)**	**(23,541)**	**-**	**-**	**-**
Loans and financing	**(400,516)**	**(297,768)**	**(30,013)**	**(23,402)**	**(49,333)**
Loans with related parties	**(10,294)**	**(4,580)**	**(4,571)**	**(1,143)**	**-**
Lease liabilities	**(186,930)**	**(78,275)**	**(46,201)**	**(51,922)**	**(10,532)**
Dividends payable	**(595,813)**	**(595,813)**	**-**	**-**	**-**
Net position	**(1,899,643)**	**(1,668,331)**	**(94,980)**	**(76,467)**	**(59,865)**
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)

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

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)

7. Financial risk management (Continued)

b) Market risk (Continued)

v) *Capital management* (Continued)

In 2021, the Group's strategy was to keep the financial leverage ratio between 0.95% and 1.10%.

The financial leverage ratios as at December 31, 2021 and 2021 are summarized below (consolidated):

	2021	2020
Total loans and financing and loans payable to related parties (Notes 18 and 29)	**410,810**	418,354
Total lease liabilities (Note 14)	**186,930**	162,349
(-) Cash and cash equivalents (Note 8)	**(231,866)**	(237,295)
(-) Financial investment earmarked for loans (Note 9)	**(2,007)**	(4,526)
Net debt	**363,867**	338,882
Total equity attributable to controlling interests	**3,403,573**	3,301,261
Total capital (equity + net debt)	**3,767,440**	3,640,143
Financial leverage ratio	**0.90**	0.91

vi) *Classification of financial instruments*

Nonderivative financial instruments are classified at amortized cost and other financial liabilities. There are no other financial instruments classified in other categories than those indicated below:

	2021	2020
Financial assets		
Fair value through profit or loss		
Cash and cash equivalents	**229,859**	237,295
Financial investment earmarked for loans	**2,007**	4,526
Amortized cost		
Trade accounts receivable	**1,382,144**	1,075,081
Accounts receivable from related parties	**42,560**	41,431
Other receivables	**65,557**	318,750
Total financial assets	**1,722,127**	1,677,083
Financial liabilities		
Amortized cost		
Trade accounts payable	**(531,160)**	(513,354)
Trade payables to related parties	**(23,541)**	(19,945)
Dividends payable	**(595,813)**	(166,058)
Loans and financing	**(400,516)**	(403,098)
Lease liabilities	**(186,930)**	(162,349)
Intercompany loans	**(10,294)**	(15,256)
Other payables	**(151,389)**	(151,799)
Total financial liabilities	**(1,899,643)**	(1,431,859)

(In thousands of reais)

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 or 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 12/31/2021	Amount	%	Amount	%	Amount
95	Increase in CDI	Investment (assets)	10/1/2046	3.54%	3	4.42%	4	5.30%	5
128	Increase in CDI	Investment (assets)	6/7/2046	3.58%	5	4.48%	6	5.37%	7
141	Increase in CDI	Investment (assets)	5/2/2047	3.76%	5	4.70%	7	5.64%	8
209	Increase in CDI	Investment (assets)	10/2/2023	4.46%	9	5.58%	12	6.70%	14
1,430	Increase in CDI	Investment (assets)	6/21/2023	4.64%	66	5.80%	83	6.96%	100
28,314	Increase in CDI	Investment (assets)	10/3/2022	4.31%	1,220	5.39%	1,525	6.46%	1,830
1,568	Increase in CDI	Investment (assets)	9/2/2022	4.42%	69	5.53%	87	6.63%	104
741	Increase in CDI	Investment (assets)	1/28/2022	2.87%	21	3.59%	27	4.31%	32
10,287	Increase in CDI	Investment (assets)	3/18/2022	3.32%	341	4.14%	426	4.97%	512
260	Increase in CDI	Investment (assets)	3/4/2022	3.45%	9	4.31%	11	5.17%	13
3,800	Increase in CDI	Investment (assets)	1/13/2022	3.80%	144	4.75%	181	5.70%	217
283	Increase in CDI	Investment (assets)	4/25/2022	3.98%	11	4.97%	14	5.97%	17
24,542	Increase in CDI	Investment (assets)	12/3/2025	4.89%	1,200	6.11%	1,500	7.34%	1,800
12,421	Increase in CDI	Investment (assets)	1/26/2022	2.87%	356	3.59%	446	4.31%	535
12,409	Increase in CDI	Investment (assets)	12/3/2025	4.29%	532	5.36%	665	6.44%	799
8,984	Increase in CDI	Investment (assets)	1/31/2022	2.65%	238	3.32%	298	3.98%	358
3,268	Increase in CDI	Investment (assets)	3/18/2022	3.32%	108	4.14%	135	4.97%	162
1,280	Increase in CDI	Investment (assets)	1/10/2022	3.80%	49	4.75%	61	5.70%	73
831	Increase in CDI	Investment (assets)	3/4/2022	3.45%	29	4.31%	36	5.17%	43
16,153	Increase in CDI	Investment (assets)	12/31/2025	4.20%	678	5.25%	848	6.30%	1,017
18,166	Increase in CDI	Investment (assets)	12/31/2026	4.20%	763	5.25%	953	6.30%	1,144
23,618	Increase in CDI	Investment (assets)	1/28/2022	2.87%	679	3.59%	848	4.31%	1,018
9,466	Increase in CDI	Investment (assets)	12/3/2025	4.29%	406	5.36%	508	6.44%	609
6,663	Increase in CDI	Investment (assets)	1/31/2022	2.65%	177	3.32%	221	3.98%	265
5,171	Increase in CDI	Investment (assets)	3/18/2022	3.32%	171	4.14%	214	4.97%	257
4,293	Increase in CDI	Investment (assets)	1/10/2022	3.80%	163	4.75%	204	5.70%	245
611	Increase in CDI	Investment (assets)	3/4/2022	3.45%	21	4.31%	26	5.17%	32
195,132					7,473		9,346		11,216

Grupo NC Farma

Notes to combined financial statements (Continued)
December 31, 2021 and 2020
(In thousands of reais)

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 12/31/2021	Amount	%	Amount	%	Amount
95	Decrease in CDI	Investment (assets)	10/1/2046	3.54%	3	2.65%	3	1.77%	2
128	Decrease in CDI	Investment (assets)	6/7/2046	3.58%	5	2.69%	3	1.79%	2
141	Decrease in CDI	Investment (assets)	5/2/2047	3.76%	5	2.82%	4	1.88%	3
209	Decrease in CDI	Investment (assets)	10/2/2023	4.46%	9	3.35%	7	2.23%	5
1,430	Decrease in CDI	Investment (assets)	6/21/2023	4.64%	66	3.48%	50	2.32%	33
28,314	Decrease in CDI	Investment (assets)	10/3/2022	4.31%	1,220	3.23%	915	2.15%	610
1,568	Decrease in CDI	Investment (assets)	9/2/2022	4.42%	69	3.32%	52	2.21%	35
-	Decrease in CDI	Investment (assets)	1/24/2022	2.65%	0	1.99%	0	1.33%	0
741	Decrease in CDI	Investment (assets)	1/28/2022	2.87%	21	2.15%	16	1.44%	11
10,287	Decrease in CDI	Investment (assets)	3/18/2022	3.32%	341	2.49%	256	1.66%	171
260	Decrease in CDI	Investment (assets)	3/4/2022	3.45%	9	2.59%	7	1.72%	4
3,800	Decrease in CDI	Investment (assets)	1/13/2022	3.80%	144	2.85%	108	1.90%	72
283	Decrease in CDI	Investment (assets)	4/25/2022	3.98%	11	2.98%	8	1.99%	6
24,542	Decrease in CDI	Investment (assets)	12/3/2025	4.89%	1,200	3.67%	900	2.45%	600
12,421	Decrease in CDI	Investment (assets)	1/26/2022	2.87%	356	2.15%	267	1.44%	179
12,409	Decrease in CDI	Investment (assets)	12/3/2025	4.29%	532	3.22%	400	2.15%	267
8,984	Decrease in CDI	Investment (assets)	1/31/2022	2.65%	238	1.99%	179	1.33%	119
3,268	Decrease in CDI	Investment (assets)	3/18/2022	3.32%	108	2.49%	81	1.66%	54
1,280	Decrease in CDI	Investment (assets)	1/10/2022	3.80%	49	2.85%	36	1.90%	24
831	Decrease in CDI	Investment (assets)	3/4/2022	3.45%	29	2.59%	22	1.72%	14
16,153	Decrease in CDI	Investment (assets)	12/31/2025	4.20%	678	3.15%	509	2.10%	339
18,166	Decrease in CDI	Investment (assets)	12/31/2026	4.20%	763	3.15%	572	2.10%	381
23,618	Decrease in CDI	Investment (assets)	1/28/2022	2.87%	679	2.15%	509	1.44%	339
9,466	Decrease in CDI	Investment (assets)	12/3/2025	4.29%	406	3.22%	305	2.15%	203
6,663	Decrease in CDI	Investment (assets)	1/31/2022	2.65%	177	1.99%	133	1.33%	88
5,171	Decrease in CDI	Investment (assets)	3/18/2022	3.32%	171	2.49%	129	1.66%	86
4,293	Decrease in CDI	Investment (assets)	1/10/2022	3.80%	163	2.85%	122	1.90%	82
611	Decrease in CDI	Investment (assets)	3/4/2022	3.45%	21	2.59%	16	1.72%	11
195,132					7,473		5,609		3,740

(In thousands of reais)

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
931	**Increase in CDI**	Financial investment	7/2/2040 4/29/2021 5/30/2041	2.61%	24	3.27%	1	3.92%	1
3244	**Increase in CDI**	Financial investment	10/20/2022 12/5/2022	2.75%	89	3.44%	3	4.13%	4
124	**Increase in CDI**	Financial investment	6/7/2046	2.23%	3	2.78%	-	3.34%	-
92	**Increase in CDI**	Financial investment	10/1/2046	2.20%	2	2.75%	-	3.30%	-
136	**Increase in CDI**	Financial investment	5/2/2047	2.34%	3	2.92%	-	3.51%	-
10524	**Increase in CDI**	Financial investment	4/6/2021	2.48%	260	3.09%	8	3.71%	10
10003	**Increase in CDI**	Financial investment	1/22/2021	2.34%	234	2.92%	7	3.51%	8
1680	**Increase in CDI**	Financial investment	12/28/2021	2.48%	42	3.09%	1	3.71%	2
18021	**Increase in CDI**	Financial investment	1/28/2021	2.26%	406	2.82%	11	3.38%	14
2419	**Increase in CDI**	Financial investment	1/22/2021	2.76%	67	3.45%	2	4.15%	3
198	**Increase in CDI**	Financial investment	7/8/2025	2.64%	5	3.30%	-	3.96%	-
2417	**Increase in CDI**	Financial investment	9/3/2021 9/14/2021 9/15/2021	2.50%	60	3.13%	2	3.75%	2
5112	**Increase in CDI**	Financial investment	3/15/2021 12/16/2021 12/28/2021	2.48%	127	3.09%	4	3.71%	5
2331	**Increase in CDI**	Financial investment	2/12/2021	2.48%	58	3.09%	2	3.71%	2
1719	**Increase in CDI**	Financial investment	1/25/2021	1.38%	24	1.72%	-	2.06%	-
1020	**Increase in CDI**	Financial investment	2/12/2021	2.34%	24	2.92%	1	3.51%	1
2640	**Increase in CDI**	Financial investment	1/27/2021	2.26%	60	2.82%	2	3.38%	2
10992	**Increase in CDI**	Financial investment	2/3/2021 and 4/19/2021	2.81%	308	3.51%	11	4.21%	13
1509	**Increase in CDI**	Financial investment	9/2/2021	2.74%	41	3.42%	1	4.10%	2
27279	**Increase in CDI**	Financial investment	10/1/2021	2.72%	743	3.40%	25	4.08%	30
1540	**Increase in CDI**	Financial investment	3/15/2021 3/18/2021	2.48%	38	3.09%	1	3.71%	1
1070	**Increase in CDI**	Financial investment	1/22/2021	2.34%	25	2.92%	1	3.51%	1
41,776	**Increase in CDI**	Financial investment	3/10/2022	2.81%	1,174	3.51%	1,467	4.21%	1,761
4,525	**Increase in CDI**	Financial investment	2/18/2021	2.79%	126	3.49%	158	4.19%	189
4,261	**Increase in CDI**	Financial investment	4/13/2021	2.34%	100	2.92%	125	3.51%	149
1,781	**Increase in CDI**	Financial investment	2/12/2021	2.48%	44	3.09%	55	3.71%	66
900	**Increase in CDI**	Financial investment	12/28/2021	2.48%	22	3.09%	28	3.71%	33
791	**Increase in CDI**	Financial investment	1/11/2021	2.45%	19	3.06%	24	3.67%	29
560	**Increase in CDI**	Financial investment	6/14/2021	2.48%	14	3.09%	17	3.71%	21
550	**Increase in CDI**	Financial investment	1/27/2021	2.26%	12	2.82%	16	3.38%	19
30	**Increase in CDI**	Financial investment	12/16/2021	2.48%	1	3.09%	1	3.71%	1

(In thousands of reais)

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**
931	**Decrease in CDI**	Financial investment	7/2/2040 4/29/2021 5/30/2041	2.61%	24	1.96%	-	1.31%	-
3244	**Decrease in CDI**	Financial investment	10/20/2022 12/5/2022	2.75%	89	2.06%	2	1.38%	1
124	**Decrease in CDI**	Financial investment	6/7/2046	2.23%	3	1.67%	-	1.11%	-
92	**Decrease in CDI**	Financial investment	10/1/2046	2.20%	2	1.65%	-	1.10%	-
136	**Decrease in CDI**	Financial investment	5/2/2047	2.34%	3	1.75%	-	1.17%	-
10524	**Decrease in CDI**	Financial investment	4/6/2021	2.48%	260	1.86%	5	1.24%	3
10003	**Decrease in CDI**	Financial investment	1/22/2021	2.34%	234	1.75%	4	1.17%	3
1680	**Decrease in CDI**	Financial investment	12/28/2021	2.48%	42	1.86%	1	1.24%	1
18021	**Decrease in CDI**	Financial investment	1/28/2021	2.26%	406	1.69%	7	1.13%	5
2419	**Decrease in CDI**	Financial investment	1/22/2021	2.76%	67	2.07%	1	1.38%	1
198	**Decrease in CDI**	Financial investment	7/8/2025	2.64%	5	1.98%	-	1.32%	-
2417	**Decrease in CDI**	Financial investment	9/3/2021 9/14/2021 9/15/2021	2.50%	60	1.88%	1	1.25%	1
5112	**Decrease in CDI**	Financial investment	3/15/2021 12/16/2021 12/28/2021	2.48%	127	1.86%	2	1.24%	2
2331	**Decrease in CDI**	Financial investment	2/12/2021	2.48%	58	1.86%	1	1.24%	1
1719	**Decrease in CDI**	Financial investment	1/25/2021	1.38%	24	1.03%	-	0.69%	-
1020	**Decrease in CDI**	Financial investment	2/12/2021	2.34%	24	1.75%	-	1.17%	-
2640	**Decrease in CDI**	Financial investment	1/27/2021	2.26%	60	1.69%	1	1.13%	1
10992	**Decrease in CDI**	Financial investment	2/3/2021 and 4/19/2021	2.81%	308	2.10%	6	1.40%	4
1509	**Decrease in CDI**	Financial investment	9/2/2021	2.74%	41	2.05%	1	1.37%	1
27279	**Decrease in CDI**	Financial investment	10/1/2021	2.72%	743	2.04%	15	1.36%	10
1540	**Decrease in CDI**	Financial investment	3/15/2021 3/18/2021	2.48%	38	1.86%	1	1.24%	-
1070	**Decrease in CDI**	Financial investment	1/22/2021	2.34%	25	1.75%	-	1.17%	-
41,776	**Decrease in CDI**	Financial investment	3/10/2022	2.81%	1,174	2.11%	880	1.40%	587
4,525	**Decrease in CDI**	Financial investment	2/18/2021	2.79%	126	2.09%	95	1.40%	63
4,261	**Decrease in CDI**	Financial investment	4/13/2021	2.34%	100	1.75%	75	1.17%	50
1,781	**Decrease in CDI**	Financial investment	2/12/2021	2.48%	44	1.86%	33	1.24%	22
900	**Decrease in CDI**	Financial investment	12/28/2021	2.48%	22	1.86%	17	1.24%	11
791	**Decrease in CDI**	Financial investment	1/11/2021	2.45%	19	1.84%	15	1.22%	10
560	**Decrease in CDI**	Financial investment	6/14/2021	2.48%	14	1.86%	10	1.24%	7
550	**Decrease in CDI**	Financial investment	1/27/2021	2.26%	12	1.69%	9	1.13%	6
30	**Decrease in CDI**	Financial investment	12/16/2021	2.48%	1	1.86%	1	1.24%	-
7,008	**Decrease in CDI**	Financial investment	2/18/2021	1.93%	135	1.45%	101	0.69%	68
3,141	**Decrease in CDI**	Financial investment	2/12/2021	1.71%	54	1.28%	40	0.86%	27
7,183	**Decrease in CDI**	Financial investment	4/6/2021	1.71%	123	1.28%	92	0.86%	61
1,040	**Decrease in CDI**	Financial investment	1/22/2021	1.62%	17	1.21%	13	0.81%	8
1,120	**Decrease in CDI**	Financial investment	1/25/2021	0.95%	11	0.71%	8	0.48%	5
2,631	**Decrease in CDI**	Financial investment	12/28/2021	1.71%	45	1.28%	34	0.86%	22

(In thousands of reais)

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

Exposure	Risk	Type	Effective rate at 12/31/2021	Probable	25% devaluation		50% devaluation	
			%	Amount	%	Amount	%	Amount
264,591	Finance lease	Loan (liability)	**100**	**2,308**	**75**	**1,731**	**50**	**1,154**
16,235	FINEP	Loan (liability)	**100**	**51**	**75**	**38**	**50**	**26**
111,513	Brazilian Development Bank (BNDES)	Loan (liability)	**100**	**2,315**	**75**	**1,736**	**50**	**1,158**
122	FINAME	Loan (liability)	**100**	**-**	**75**	**0**	**50**	**0**
8,055	Banco Regional de Brasília	Loan (liability)	**100**	**265**	**75**	**199**	**50**	**132**
127,620	Lease liabilities	Lease liabilities	**100**	**11,672**	**75**	**8,754**	**50**	**5,836**
51,343	Leases	Lease (liability)	**100**	**5,654**	**75**	**4,240**	**50**	**2,827**
10,294	Carlos Sanchez	Loan (related party)	**100**	**10,294**	**75**	**7,721**	**50**	**5,147**
7,967	Lease (liability)	Lease (liability)	**100**	**795**	**75**	**7,371**	**50**	**7,569**
597,740				**33,354**		**31,790**		**23,849**

Exposure	Risk	Type	Effective rate – 12/31/2021	Probable	25% devaluation		50% devaluation	
			%	Amount	%	Amount	%	Amount
264,591	Finance lease	Loan (liability)	**100**	**2,308**	**75**	**1,731**	**50**	**1,154**
16,235	FINEP	Loan (liability)	**100**	**51**	**75**	**38**	**50**	**26**
111,513	Brazilian Development Bank (BNDES)	Loan (liability)	**100**	**2,315**	**75**	**1,736**	**50**	**1,158**
122	FINAME	Loan (liability)	**100**	**-**	**75**	**0**	**50**	**0**
8,055	Banco Regional de Brasília	Loan (liability)	**100**	**265**	**75**	**199**	**50**	**132**
127,620	Lease liabilities	Lease liabilities	**100**	**11,672**	**75**	**8,754**	**50**	**5,836**
51,343	Leases	Lease (liability)	**100**	**5,654**	**75**	**4,240**	**50**	**2,827**
10,294	Carlos Sanchez	Loan (related party)	**100**	**10,294**	**75**	**7,721**	**50**	**5,147**
7,967	Lease (liability)	Lease (liability)	**100**	**795**	**75**	**7,371**	**50**	**7,569**
597,740				**33,354**		**31,790**		**23,849**

Exposure	Risk	Type	Effective rate – 12/31/2021	Probable	25% appreciation		50% appreciation	
			%	Amount	%	Amount	%	Amount
264,591	Finance lease	Lease (liability)	**100**	**2,308**	**125**	**2,885**	**150**	**3,462**
16,235	FINEP	Lease (liability)	**100**	**51**	**125**	**64**	**150**	**77**
111,513	BNDES	Lease (liability)	**100**	**2,315**	**125**	**2,894**	**150**	**3,473**
122	FINAME	Lease (liability)	**100**	**-**	**125**	**0**	**150**	**0**
8,055	Banco Regional de Brasília	Lease (liability)	**100**	**265**	**125**	**331**	**150**	**397**
127,620	Lease liabilities	Lease liabilities	**100**	**11,672**	**125**	**14,590**	**150**	**17,508**
51,343	Lease	Lease (liability)	**100**	**5,654**	**125**	**7,067**	**150**	**8,481**
10,294	Carlos Sanchez	Loan (related party)	**100**	**10,294**	**125**	**12,868**	**150**	**15,441**
7,967	Lease (liability)	Lease (liability)	**100**	**795**	**125**	**8,961**	**150**	**9,160**
597,740				**33,354**		**49,660**		**57,999**

Grupo NC Farma

Notes to combined financial statements (Continued)
December 31, 2021 and 2020
(In thousands of reais)

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 – 12/31/2021 %	Probable Amount	25% devaluation %	25% devaluation Amount	50% devaluation Exposure	50% devaluation Risk
264,591	Finance lease	Lease (liability)	100	**2,308**	**75**	**1,731**	**50**	**1,154**
16,235	FINEP	Lease (liability)	100	**51**	**75**	**38**	**50**	**26**
111,513	BNDES	Lease (liability)	100	**2,315**	**75**	**1,736**	**50**	**1,158**
122	FINAME	Lease (liability)	100	**-**	**75**	**0**	**50**	**0**
8,055	Banco Regional de Brasília	Lease (liability)	100	**265**	**75**	**199**	**50**	**132**
127,620	Lease liabilities	Lease liabilities	100	**11,672**	**75**	**8,754**	**50**	**5,836**
51,343	Lease	Lease (liability)	100	**5,654**	**75**	**4,240**	**50**	**2,827**
10,294	Carlos Sanchez	Loan (related party)	100	**10,294**	**75**	**7,721**	**50**	**5,147**
7,967	Lease (liability)	Lease (liability)	100	**795**	**75**	**7,371**	**50**	**7,569**
597,740				**33,354**		**31,790**		**23,849**

Exposure	Risk	Type	Effective rate – 12/31/2020 %	Probable Amount	25% appreciation %	25% appreciation Amount	50% appreciation Exposure	50% appreciation Risk
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)	BNDES	100	874	125	1,093	150	1,311
3,536	Loan (liability)	BNDES	100	106	125	132	150	159
49	Loan (liability)	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 party)	Carlos Sanchez	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

(In thousands of reais)

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 – 12/31/2020 %	Probable Amount	25% devaluation %	25% devaluation Amount	50% devaluation %	50% devaluation 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)	BNDES	100	874	75	656	50	437
3,536	Loan (liability)	BNDES	100	106	75	79	50	53
49	Loan (liability)	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 Sanchez	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

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 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:

(In thousands of reais)

7. Financial risk management (Continued)

b) Market risk (Continued)

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

- 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 combined assets and liabilities of the Group.

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

		2021		2020	
	Fair value measurement	Book value	Fair value	Book value	Fair value
Assets					
Cash and cash equivalents	Level 2	**229,859**	**229,859**	237,295	237,295
Financial investment earmarked for loans	Level 2	**2,007**	**2,007**	4,526	4,526
Trade accounts receivable	Level 2	**1,382,144**	**1,382,144**	1,075,081	1,075,081
Accounts receivable from related parties	Level 2	**42,560**	**42,560**	41,431	41,431
Other receivables	Level 2	**65,557**	**65,557**	318,750	318,750
Total		**1,722,127**	**1,722,127**	1,677,083	1,677,083
Liabilities					
Trade accounts payable	Level 2	**(531,160)**	**(531,160)**	(513,354)	(513,354)
Trade accounts payable to related parties	Level 2	**(23,541)**	**(23,541)**	(19,945)	(19,945)
Dividends payable	Level 2	**(595,813)**	**(595,813)**	(595,813)	(595,813)
Loans and financing	Level 2	**(400,516)**	**(400,516)**	(403,098)	(403,098)
Lease liabilities	Level 2	**(186,930)**	**(186,930)**	(162,349)	(162,349)
Other payables	Level 2	**(151,391)**	**(151,391)**	(15,256)	(15,256)
Total		**(1,889,351)**	**(1,889,351)**	(1,709,815)	(1,709,815)

7. **Financial risk management** (Continued)

b) Market risk (Continued)

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

The Group used the following methods and assumptions to estimate the fair value disclosure of its financial instruments as at December 31, 2021 and 2020:

- Cash and cash equivalents and financial investment earmarked for loans: stated at market value, which corresponds to their book 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 at amortized cost and recorded for the related contract prices.

- Loans and financing: classified at amortized cost and recorded for the related contract prices.

(In thousands of reais)

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 at amortized cost. 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

	2021	**2020**
Bank	**36,734**	22,091
Short-term investments	**193,125**	215,204
	229,859	237,295

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 105% in 2021 and between 80% and 102.17% in 2020.

9. Financial investment earmarked for loans

	2021	**2020**
Financial investment earmarked for loans	**2,007**	4,526
	2,007	4,526

The financial investment made in Banco de Brasília, classified in noncurrent assets totaling R$2,007 (R$4,526 in 2020), 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)

10. Trade accounts receivable

	2021	2020
Trade accounts receivable	**1,402,057**	1,090,713
(-) Allowance for expected credit losses	**(11,008)**	(15,632)
(-) Provision for returns	**(8,905)**	-
Trade accounts receivable, net	**1,382,144**	1,075,081

At December 31, 2021 and 2020, the accounts receivable aging list was as follows:

	2021	2020
Falling due	**1,215,425**	949,511
Overdue:		
Up to 3 months	**93,517**	44,569
Between 3 and 6 months	**8,783**	14,266
Between 6 and 12 months	**5,461**	10,818
More than 1 year	**78,871**	71,549
Total	**1,402,057**	1,090,713

Changes in the Group's allowance for expected credit losses and provision for returns are shown below:

	2021		2020
	Allowance for expected credit losses	**Provision for returns**	**Allowance for expected credit losses**
January 1	**(15,632)**	**-**	(26,346)
Recognition of provision	**(1,139)**	**(8,905)**	(12,627)
Reversal of provision	**5,443**	**-**	23,024
Write-off to losses	**330**	**-**	317
December 31	**(11,008)**	**(8,905)**	(15,632)

Trade accounts receivable are denominated in the following currencies:

	2021	2020
Reais	**1,384,216**	1,055,201
Euro	**6,422**	14,127
US dollars	**11,419**	5,753
	1,402,057	1,075,081

(In thousands of reais)

11. Inventories

	2021	2020
Raw material	**717,323**	526,942
Finished products	**345,356**	378,730
Products in process	**180,241**	146,976
Packaging and other materials	**79,414**	69,561
Imports in transit	**57,542**	41,824
Advances to suppliers - third parties	**47,389**	82,753
Provision for obsolescence	**(80,017)**	(54,642)
Provision for returns	**3,306**	-
	1,350,554	1,192,144

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 RR1,178,679 in 2021 (R$1,184,906 in 2020).

The criteria used to recognize the provision for obsolescence are detailed in Note 5.m.

Changes in provisions as of December 31, 2021 and 2020 are presented below:

	2021		2020
	Provision for obsolescence	**Provision for returns**	**Provision for obsolescence**
January 1	**(54,642)**	**-**	(50,140)
Recognition of provision	**(72,522)**	**3,305**	(50,712)
Reversal of provision	**44,153**	**-**	31,944
Write-offs	**2,994**	**-**	14,266
December 31	**(80,017)**	**3,305**	(54,642)

12. Taxes recoverable

	2021	2020
IRPJ and CSLL (a)	**69,114**	108,991
Contribution Tax on Gross Revenue for Social Integration Program (PIS) and Contribution Tax on Gross Revenue for Social Security Financing (COFINS) (b)	**790,555**	343,286
State VAT (ICMS) (c)	**321,795**	226,832
Federal Value-Added Tax (IPI)	**42,531**	37,538
Other	**19,056**	9,765
	1,243,051	726,412
Current	**604,028**	376,910
Noncurrent	**639,023**	349,502
	1,243,051	726,412

(In thousands of reais)

12. Taxes recoverable (Continued)

(a) This refers to prepayment and credit balance of 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.

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

In 2007, the companies EMS, Germed, EMS Sigma, Novamed, Nova Química, Legrand and Luxbiotech (jointly denominated “companies”) issued a Writ of Mandamus aiming at the exclusion of ICMS from the PIS and COFINS tax bases. In May 2019, a favorable decision was granted on the appeal (STF). At the same time, the case became final and not subject to further appeal. Accordingly, the companies calculated the respective amounts as from 2006. In 2021, based on the opinion and report prepared by the legal advisors, the companies measured the amounts and recorded a total of R$323,851, of which R$252,580 referring to PIS and COFINS, accounted for in other operating income, and R$71,271 to interest and monetary restatement, recognized as finance income, to be offset against current taxes administered by the Brazilian IRS in future periods.

13. Other receivables

	2021	**2020**
Prepaid profit sharing (Note 29.a)	**-**	234,900
Advances to suppliers	**12,291**	38,021
Advances to related parties (Note 29)	**7,642**	8,536
Advances to employees	**16,189**	10,629
Sublease receivables	**6,587**	5,900
Other	**22,848**	20,764
	65,557	318,750
Current	**60,481**	313,668
Noncurrent	**5,076**	5,082
	65,557	318,750

(In thousands of reais)

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
January 1, 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)
Write-offs, 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
Acquisitions and remeasurements	**75,353**	**39,016**	**1,100**	**-**	**115,469**
Write-offs, net	**(28,143)**	**(18,933)**	**-**	**-**	**(47,076)**
Depreciation	**(13,754)**	**(26,747)**	**(1,435)**	**(1,178)**	**(43,114)**
Net book balance	**128,753**	**48,443**	**1,054**	**-**	**178,250**
December 31, 2021					
Cost	**154,100**	**130,399**	**4,279**	**10,494**	**299,272**
Accumulated depreciation	**(25,347)**	**(81,956)**	**(3,225)**	**(10,494)**	**(121,022)**
	128,753	**48,443**	**1,054**	**-**	**178,250**

(In thousands of reais)

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
December 31, 2020					
Opening balance	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)
Book value as at December 31, 2020	103,934	55,085	1,472	1,860	162,351
				Current	48,484
				Noncurrent	113,865
December 31, 2021					
Opening balance	**103,934**	**55,085**	**1,470**	**1,858**	**162,347**
Acquisitions and remeasurements	**75,353**	**39,016**	**1,100**	**-**	**115,469**
Interest incurred	**11,673**	**3,668**	**126**	**19**	**15,486**
Write-offs	**(30,891)**	**(21,803)**	**-**	**-**	**(52,694)**
Payments	**(22,482)**	**(28,317)**	**(1,002)**	**(1,877)**	**(53,678)**
Book value as at December 31, 2021	**137,587**	**47,649**	**1,694**	**-**	**186,930**
				Current	**78,275**
				Noncurrent	**108,655**

(In thousands of reais)

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, 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
December 31, 2020							
Opening balance	**381,307**	**462,133**	**33,824**	**-**	**116,136**	**193,822**	**1,187,222**
Acquisitions	**765**	**13,528**	**4,001**	**-**	**126,954**	**-**	**145,248**
Write-offs	**26**	**(977)**	**(91)**	**-**	**(4,266)**	**-**	**(5,308)**
Transfers	**3,426**	**47,000**	**3,479**	**-**	**(59,512)**	**-**	**(5,607)**
Depreciation	**(9,976)**	**(32,117)**	**(4,872)**	**-**	**-**	**(13,954)**	**(60,919)**
Net book balance	**375,548**	**489,567**	**36,341**	**-**	**179,312**	**179,868**	**1,260,636**
December 31, 2021							
Cost	**475,524**	**772,819**	**80,170**		**179,312**	**231,715**	**1,739,540**
Accumulated depreciation	**(99,976)**	**(283,252)**	**(43,829)**		**-**	**(51,847)**	**(478,904)**
	375,548	**489,567**	**36,341**	**-**	**179,312**	**179,868**	**1,260,636**

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

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$999 in 2021 and R$25,821 in 2020.

(In thousands of reais)

16. Investments

	December 31, 2021			
	Gronin	**Globe**	**Other**	**Total**
Opening investment balance at January 1, 2021	4,676	**65,823**	**467**	**70,966**
Capital increase	**1,368**	**-**	**-**	**1,368**
Write-off of foreign operation upon translation – equity effect	**(2,140)**	**-**	**-**	**(2,140)**
Write-off of investment – cash receipt (a)	**(17,075)**	**(9,890)**	**-**	**(26,965)**
Write-off of investment – P&L	**10,578**	**(55,933)**	**-**	**(45,355)**
Equity pickup	**2,593**	**-**	**-**	**2,593**
	-	**-**	**467**	**467**

	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		
Opening investment 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

(a) Write-off of investment

Gronin Pharma Participações S.A. On 12/17/2021, the company Gronin Pharma Participações S.A. was dissolved, in line with the EMS corporate reorganization strategy. As a consequence of this dissolution, the investment in the amount of R$17,075 was returned to EMS via bank transfer and the remaining balance recorded under EMS investment was written down to P&L as Other operating expenses.

Globe Pharma s.a.r.l In September 2021, the indirect subsidiary Monteresearch transferred the equity interest held in Globe Pharma to the controlling shareholders of this investee, thus no longer holding any stake in Globe Pharma. The return of the investment amounted to EUR1,021 (R$9,890).

17. Trade accounts payable

	2021	**2020**
Foreign suppliers	**268,974**	316,293
Domestic suppliers	**193,497**	150,887
Service suppliers	**68,689**	46,174
	531,160	513,354

(In thousands of reais)

18. Loans and financing

	Interest rate	Maturity	Individual and Consolidated 2021	2020
Finance lease (a)	1.21% p.a. to 3.23% p.a. and Libor + 0.35% p.a.	May 2021	**-**	242,823
Bradesco 4131 (e)	1.44% p.a.	May 2022	**264,591**	-
FINEP (b)	(b)	April 2023	**16,235**	28,483
BNDES (c)	(c)	March 2026 to February 2027	**111,513**	112,325
FINAME	2.5% to 3% p.a.	January 2023 to February 2023	**122**	234
BNDES	TJLP (ii) + 1.5% p.a.	August 2021	**-**	7,593
BNDES	Selic (iii) + 1.7% p.a.	August 2021	**-**	3,536
BNDES	TJLP (i)	August 2021	**-**	49
Banco Regional de Brasília - ICMS financing (d)	25% of INPC (i)	December 2031	**8,055**	8,055
			400,516	403,098
Current			**297,768**	59,028
Noncurrent			**102,748**	344,070
			400,516	403,098

(i) Annual effective rate.

(ii) TJLP - Long-Term Interest Rate

(iii) Central Bank Benchmark Rate (Selic)

(a) The finance lease amount comprises: JP Morgan: refers to purchase of an aircraft. The balance was fully settled in May 2021.

(b) 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$16,235.

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

(i) R&D agreement for a line of credit totaling R$75,712, which will be released in subloans based on the rendering of accounts. The outstanding amount is R$5,271, 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 subloans according to the rendering of accounts.

(a) Subloan "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$42,297, subject to interest of IPCA* 1.36% p.a.* 1.79% p.a., and final payment on February 15, 2027.

18. Loans and financing (Continued)

Subloan "B" - R$38,080 for the implementation of packaging lines in the EMS production complex, located in Hortolândia. The outstanding balance is R$38,946, subject to interest of IPCA* 2.16 p.a. * 1.79 p.a., and final payment on February 15, 2027.

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

Subloan "A" - in the amount of R$34,413 (R$19,077 was released) for the implementation of a production unit to manufacture oncology injectables in the city of Hortolândia, SP. The outstanding amount is R$19,491, subject to interest of IPCA* 1.36% p.a.* 1.79% p.a., and final payment on February 15, 2027.

(b) Subloan "B" - R$13,410 (R$5,384 was 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$5,507, subject to interest of IPCA* 2.16 p.a.* 1.79% p.a., and final payment on February 15, 2027.

(d) Banco Regional de Brasília - refers to a credit benefit granted to the Company 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 Company 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 Company 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 or loss on a straight-line basis according to the maturity of each amount released. As at December 31, 2019, the deferred revenue recognized by the Company was R$19,032 (R$19,032 as at December 31, 2018)

On March 31, 2014, the Company 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 Company 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. There were no grant-related movements in 2021.

(In thousands of reais)

18. Loans and financing (Continued)

(e) Refers to working capital loan taken out in US$ to settle the debt with JP Morgan. The amount raised totals US$47 million at 1.44% annual interest. We exchanged the debt for reais through swap (hedge to protect the exchange rate and mitigate the risk of fluctuation in dollar) in the amount of R$247,163 at the rate of 100% CDI + 1.04% p.a.

The loan and financing agreements have nonfinancial covenants whose non-compliance may result, at the discretion of the respective creditors, after notification, in the early maturity of the respective debts.

At December 31, 2021 and 2020, the Group is compliant with the contractual conditions in the aforementioned agreements.

The loans and financing recorded in current and noncurrent liabilities as at December 31, 2021 and 2020 mature as follows:

Year	2021	2020
2021	**-**	47,850
2022	**297,768**	74,242
2023	**30,013**	204,340
2024 onwards	**72,735**	76,666
	400,516	403,098

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

	2021	2020
Items in cash flows from financing activities:		
Balance at January 1	**403,098**	336,965
Loans raised	**333,772**	107,917
Loan repayment	**(355,534)**	(97,803)
Grant written off		(2,052)
Total cash flows used in financing activities	**381,336**	345,027
Other items:		
Interest expense and exchange differences	**36,340**	65,823
Payment of interest and exchange differences	**(17,160)**	(7,752)
Total other items	**19,180**	58,071
Balance at December 31	**400,516**	403,098

(In thousands of reais)

19. Payroll and related charges

	2021	2020
Vacation payable	**46,418**	63,841
Profit sharing	**44,872**	34,518
Social charges on vacation pay and bonuses	**46,445**	27,147
Other	**2,687**	2,973
Total	**140,422**	128,479

20. Provision for losses on legal proceedings and judicial deposits

The Group is a party to legal and administrative proceedings filed with courts and governmental agencies, arising from 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 dates, the Group recorded the following liabilities and corresponding judicial deposits, related to contingencies:

	Provision for losses on legal proceedings		Judicial deposits		Net balance	
	2021	2020	2021	2020	2021	2020
Tax and civil contingencies (i)	**90,575**	65,791	**(33,015)**	(20,691)	**57,560**	45,100
Labor and social security contingencies (ii)	**129,203**	96,391	**(21,863)**	(30,060)	**107,340**	66,331
	219,778	162,182	**(54,878)**	(50,751)	**164,900**	111,431

Changes in the provision for losses on legal proceedings are as follows:

	2021	2020
January 1	**155,422**	150,435
Recognition of provision	**72,469**	23,850
Monetary restatement	**13,531**	9,484
Proceedings written off - payments	**(13,671)**	(14,801)
Reversal of provision	**(7,973)**	(6,786)
December 31	**219,778**	162,182

(In thousands of reais)

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

a) Breakdown (Continued)

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 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 P&L.

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:

	2021	**2020**
Tax (IR/CSLL) (a)	**1,701,498**	2,008,885
Labor	**155,049**	191,603
Civil (c)	**641,480**	667,011
Tax - other (b)	**374,879**	344,444
	2,872,906	3,211,943

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)

(a) 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, 2021, the updated amount is R$257,556 (R$250,407 in 2020).

(b) 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.

(c) This refers to a Class Action suit claiming refund of alleged losses to the public treasury arising from contracts in relation to the Product Development Partnership (PDP) entered into between EMS, Instituto Vital Brasil IVB and the Federal Government.

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)

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.

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 2021 and 2020 are as follows:

	Balance at 12/31/2020	Merger of Nova Química	Recognized in P&L	Balance at 12/31/2021
Provision for tax recovery	-	-	(87,820)	(87,820)
Provision for legal proceedings	49,113	154	25,561	74,828
Tax loss	-	-	39,959	39,959
Fair value – Multilab investment	-	-	(8,935)	(8,935)
Provision for items billed and not shipped (cut-off)	44,597	(2,780)	(1,077)	40,740
Provision for impairment losses on receivables	5,303	70	(1,677)	3,696
Provision for inventory obsolescence	18,458	(163)	11,717	30,012
Provision for profit sharing	11,417	(34)	3,892	15,275
Provision for free samples	3,991	-	3,996	7,987
Provision for leased vehicles	328	-	128	456
Gain on bargain purchase - Multilab	(17,406)	-	-	(17,406)
Other provisions	(1,027)	(2,332)	5,448	2,089
Provision for deferred exchange differences for tax purposes	(13,572)	90	16,858	3,376
Grant revenue	1,417	-	(1,417)	-
Lease CPC 06	12,228	278	(1,439)	11,067
Provision for useful life recorded for corporate and tax purposes	(22,301)	(52)	(15,899)	(38,252)
Deferred income and social contribution tax assets, net	92,546	(4,769)	(10,705)	77,072

(In thousands of reais)

21. Income and social contribution taxes (Continued)

a) Deferred income and social contribution taxes (Continued)

	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 inventory 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 CPC 06	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

	2021	2020
Deferred income and social contribution taxes - assets	**127,669**	124,201
Deferred income and social contribution taxes - liabilities	**(50,597)**	(31,655)
Net effect	**77,072**	92,546

b) Current income and social contribution taxes

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

	2021	2020
Income before income and social contribution taxes	**2,241,871**	1,520,073
Tax loss offset	**(11,240)**	-
Tax incentives - ICMS	**(272,790)**	(204,852)
IRPJ and CSLL at local rates (34%)	**(665,666)**	(447,175)
Equity pickup	**882**	(6,814)
Workers' Support Program (PAT)	**334**	435
Technological innovation (R&D) Law No. 11196/05 (EMS)	**11,991**	8,623
Capital grant	**21,982**	27,552
75% reduction in income tax from grants (Novamed)	**215,889**	140,993
Tax loss recognized in the year (Multilab)	**39,959**	-
Reinvestment	**13,667**	9,176
Other additions / exclusions	**(52,649)**	(39,958)
IRPJ and CSLL taxes on the statement of profit or loss	**(413,611)**	(307,168)
Current income and social contribution taxes	**(402,906)**	(328,623)
Deferred income and social contribution taxes	**(10,705)**	21,455
IRPJ and CSLL taxes on the statement of profit or loss	**(413,611)**	(307,168)
Effective rate	**18.45%**	20,72%

(In thousands of reais)

21. Income and social contribution taxes (Continued)

c) Income and social contribution taxes payable

	2021	2020
Income tax payable	**73,765**	26,854
Social contribution tax payable	**31,119**	20,704
	104,884	47,558

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

	2021	2020
Opening balance at January 1	**47,558**	69,480
(+) Provision for current IR/CS in the year	**402,906**	328,624
(-) Amounts offset against federal taxes	**(144,401)**	(109,658)
(-) Amounts prepaid/paid in the year	**(201,180)**	(240,888)
(=) Closing balance at December 31	**104,884**	47,558

22. Taxes in installments

	2021	2020
Installment payment - Law No. 11941/09 (i)	**40,832**	54,349
ICMS installment payment (ii)	**3,918**	3,918
ICMS installment payment (iii)	**15,221**	22,834
	59,971	81,101
Current amount	**28,222**	26,009
Noncurrent amount	**31,749**	55,092

(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)

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 at December 31, 2021 and 2020 is shown below:

	Consolidated	
	2021	**2020**
Principal	**39,761**	55,515
Interest	**20,210**	25,586
	59,971	81,101

23. Other payables

	2021	**2020**
Advances from customers	**35,556**	37,662
Third-parties services	**19,522**	20,344
Land payable	**12,342**	12,061
Advances from customers - related parties (Note 29.a)	**4,840**	4,840
Exclusive right	**2,271**	3,867
Insurance on leased vehicles	**6,823**	1,434
Employees	**5,449**	1,270
Project expenses	**1,011**	1,011
Other	**63,577**	69,310
	151,391	151,799
Current amount	**137,196**	135,871
Noncurrent amount	**14,195**	15,928

(In thousands of reais)

24. Equity

a) <u>Capital</u>

On July 6, 2021, Novamed’s capital was increased with tax incentive reserves in the amount of R$602,254 through the issuance of 602,253,774 common shares.

On July 15, 2021, with the merger of Nova Química by Multilab, as disclosed in Note 1, the combined capital was reduced by R$66,000.

Accordingly, subscribed and paid-in capital is RR1,399,787 at December 2021 (R$863,524 at December 31, 2020), held as follows:

12.31.2021

Shareholder/Member	EMS S. A	Germed	Novamed	Multilab	CPM	EMS Sigma	Legrand	Luxbiotech	Monteresearch	Total
EMS S.A.	-	-	-	-	64,205,000	7,662,451	136,464	97,516,851	90,000	169,610,766
NC Participações S.A.	19,800,000	-	-	-	400,000	77,398	1,379	206,158		20,484,935
Germed Farmacêutica LDA.	200,000	-	-	-	-	-	-	-	-	200,000
Carlos Eduardo Sanchez	-	-	875,847,771	-	-	-	-	-	-	875,847,771
Novamed Fabricação de Produtos Farmacêuticos Ltda.	-	-	-	167,390,504	-	-	-	-	-	167,390,504
Leonardo Sanchez Secundino	-	-	145,974,629	-	-	-	-	-	-	145,974,629
Marcus Vinicius Sanchez Secundino	-	-	145,974,629	-	-	-	-	-	-	145,974,629
Saltmont Empreendimentos e Participações Ltda.	-	5,239,097	-	-	-	-	-	-	-	5,239,097
Saltriver Empreendimentos e Participações Ltda.	-	5,033,644	-	-	-	-	-	-	-	5,033,644
Saltmont Fundo Invest. Participações	-	-	-	17,140,453	-	-	-	-	-	17,140,453
Saltriver Fundo Invest. Participações	-	-	-	2,853,571	-	-	-	-	-	2,853,571
Global Energy Fundo de Investimento Participações	-	-	-	2,853,571	-	-	-	-	-	2,853,571
	20,000,000	10,272,741	1,167,797,029	190,238,099	64,605,000	7,739,849	137,843	97,723,009	90,000	1,558,603,570

(In thousands of reais)

24. **Equity** (Continued)

a) Capital (Continued)

12.31.2020

Shareholder/Member	EMS S. A	Germed	Novamed	Nova Química	CPM	EMS Sigma	Legrand	Luxbiotech	Monteresearch	Multilab	Rio Biopharmaceuticals	Total
NC Participações S.A.	19,800,000	-	-	-	-	-	-	-	-	-	-	19,800,000
Germed Farmacêutica LDA.	200,000	-	-	-	-	-	-	-	-	-	-	200,000
Carlos Eduardo Sanchez	-	-	424,157,441	-	-	-	-	-	-	-	-	424,157,441
Leonardo Sanchez Secundino	-	-	70,692,907	-	-	-	-	-	-	-	-	70,692,907
Marcus Vinicius Sanchez Secundino	-	-	70,692,907	-	-	-	-	-	-	-	-	70,692,907
Saltmont Empreendimentos e Participações Ltda.	-	5,239,097	-	49,500,002	-	-	-	-	-	-	-	54,739,099
Saltriver Empreendimentos e Participações Ltda.	-	5,034,644	-	8,250,000	-	-	-	-	-	-	-	13,284,644
Global Energy Fundo de Investimento Participações	-	-	-	8,250,000	-	-	-	-	-	-	-	8,250,000
EMS S.A.	-	-	-	-	64,205,000	7,662,451	136,464	97,516,581	90,000	-	3,308	169,613,804
NC Participações S.A.	-	-	-	-	400,000	77,398	1,379	206,158	-	-	-	684,935
Novamed Fabricação de Produtos Farmacêuticos Ltda.	-	-	-	-	-	-	-	-	-	685,213,744	-	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	1,517,329,481

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 combined entity EMS 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 or 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 or loss for the year and subsequently transferred to tax incentive in equity, as an income reserve in 2014. However, we are still waiting for the auction to be held to settle the residual value. 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.

In Novamed, the amount recognized as tax incentive reserve at December 31, 2021 is R$488,699 (R$345,400 in 2020), comprising R$272,790 (R$204,852 in 2020) in ICMS tax incentives and R$215,889 (R$140,548 in 2020) referring to the incentive that reduces income and social contribution taxes by 75%.

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 Group exercised the right of exclusion.

(In thousands of reais)

24. Equity (Continued)

c) Income reserve (Continued)

Tax incentive reserve (Continued)

In 2021, as required by Income Tax legislation, the tax benefits obtained were allocated to the tax incentive reserve, limited to the amount of net income for the year, totaling R$57,608 (R$46,822 in 2020) in EMS and R$4,661 (R$5,314 in 2020) in Germed.

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.

As at December 31, 2021 and 2020, the combined entity EMS did not recognize the amount of 5% of net income for the year as part of the legal reserve, since it reached the limit 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 2021 and 2020 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 corporation law, as follows:

In 2021	EMS S/A
Net income for the year	315,021
(-) Recognition of tax incentive reserve	(57,608)
Dividend calculation base	257,413
Mandatory minimum dividend (25%)	64,353

(In thousands of reais)

24. Equity (Continued)

d) Dividends (in listed companies) (Continued)

In 2020	EMS S/A	Nova Química Farmacêutica S.A	Total
Net income for the year	113,584	57,403	170,987
(-) Recognition of tax incentive reserve	(46,822)	(4,463)	(51,285)
Dividend calculation base	66,762	52,940	119,702
Mandatory minimum 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

Changes in dividends payable:

	2021	**2020**
Opening balance	**62,987**	222,689
(+) Supplemental dividends payable, as approved in meetings	**539,908**	173,778
(+) Mandatory minimum dividend	**64,353**	29,926
(-) Payments	**(77,196)**	(363,406)
(=) Balance at end of year	**590,052**	62,987

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

According to the articles of association of each entity, P&L for the year will be allocated after approval by the Company's members at the meeting. Until allocation of P&L at the members' meeting, the amount will remain recorded as retained earnings.

At December 31, 2021, Germed distributed dividends in the total amount of R$97,310 (R$226,118 at December 31, 2020).

At December 31, 2021, Novamed recorded dividends in the amount of R$1,069,201 (R$349,732 in 2020) and distributed dividends totaling R$834,301 (R$349,732 in 2020).

(In thousands of reais)

25. Net operating revenue

	2021	2020
Gross sale of products, less commercial rebates	**7,277,335**	6,359,692
Sales taxes	**(1,322,673)**	(1,126,824)
Sales returns	**(240,764)**	(248,125)
	5,713,898	4,984,743

In Novamed, based on the "Regime Especial de Industrialização por Encomenda" (Manufacture to Order), a special regime of industrial processing 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.

26. Costs and expenses broken down by nature

	2021	2020
Raw material and supplies	**(1,178,679)**	(1,184,906)
Payroll and related charges	**(776,708)**	(750,524)
Third-party services - legal entities	**(318,320)**	(243,086)
Advertising costs	**(168,576)**	(165,073)
Social security costs	**(178,348)**	(172,089)
Transportation expenses	**(187,424)**	(168,064)
Other employee benefits	**(171,081)**	(87,162)
Samples	**(133,345)**	(107,797)
Legal benefits	**(64,217)**	(61,400)
Cleaning and office supplies	**(72,730)**	(64,026)
Travel/lodging and meals	**(36,792)**	(27,149)
Provision for losses on legal proceedings	**(54,672)**	(6,746)
Third-party services - maintenance and repair	**(68,988)**	(58,390)
Electricity, water and telephone	**(31,388)**	(28,614)
Other income (expenses)	**(39,268)**	(28,696)
Depreciation, amortization and impairment charges	**(109,501)**	(104,968)
Profit sharing plan	**(40,819)**	(34,059)
Fuel and lubricants	**(29,172)**	(18,568)
Sales commissions	**(16,201)**	(14,514)
Allowance for expected credit losses	**4,972**	10,714
Donations	**(16,428)**	(9,987)
	(3,687,685)	(3,325,104)

	2021	2020
Cost of sales	**(1,825,274)**	(1,760,026)
Selling expenses	**(507,512)**	(433,924)
Administrative expenses	**(1,354,899)**	(1,131,154)
	(3,687,685)	(3,325,104)

(In thousands of reais)

27. Other income (expenses), net

	2021	2020
Other income		
Tax recovery (*)	**346,045**	47,012
Grant income	**3,497**	-
Other	**43,913**	33,896
Total other income	**393,455**	80,908
Other expenses		
Taxes, charges and contributions (**)	**(112,355)**	(99,900)
Write-off of investment	**(70,892)**	-
Other	**(14,967)**	
Total other expenses	**(198,214)**	(99,000)
Total other income (expenses), net	**195,241**	(18,992)

(*) Substantially refers to accounting for the exclusion of ICMS from the PIS and COFINS tax bases, as evidenced in Note 12.

(**) This substantially refers to fees and contributions relating to the Company's tax incentives paid to the Micro and Small Business 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

	2021	2020
Finance income		
Foreign exchange gains	**229,456**	86,772
Interest receivable*	**73,383**	6,855
Short-term investment yield	**10,444**	10,366
Other	**12,194**	746
Total finance income	**325,477**	104,739
Finance costs		
Foreign exchange losses	**(253,754)**	(155,325)
Interest	**(33,413)**	(26,309)
Lease - interest payable	**(15,484)**	(13,531)
Other	**(4,173)**	(9,332)
Loss on trade receivables and discounts granted	**(829)**	(775)
Total finance costs	**(307,653)**	(205,272)
Finance income (costs), net	**17,824**	(100,533)

*Substantially refers to interest recorded on accounting for the exclusion of ICMS from the PIS and COFINS tax bases.

(In thousands of reais)

29. Balances and transactions with related parties

Significant asset and liability balances at December 31, 2021 and 2020 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

	2021	2020
Accounts receivable from related parties		
Lafiman Distribuidora de Medicamentos Ltd	**36,294**	34,306
Snellog Armazéns Gerais e Logística Ltda	**290**	1,544
Other	**5,976**	5,581
	42,560	41,431

	2021	2020
Accounts payable to related parties		
Snellog Armazéns Gerais e Logística Ltda	**15,522**	17,178
Instituto Vita Nova	**2,267**	2,699
Other	**5,752**	68
	23,541	19,945

	2021	2020
Other receivables from related parties		
Instituto Vila Nova	**3,539**	5,874
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
Other	**4,103**	2,662
	7,642	243,436

	2021	2020
Other accounts payable to related parties		
Innoveren Pharma S/A	**4,840**	4,840
	4,840	4,840

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)

29. Balances and transactions with related parties (Continued)

b) Dividends payable

	2021	2020
Carlos Eduardo Sanchez		
Saltmont Empreendimentos e Participações Ltda.	**46,724**	49,950
Saltriver Empreendimentos e Participações Ltda.	**8,043**	47,992
NC Participações S. A	**508,309**	21,672
Germed Ltd	**25,004**	19,278
Global Energy	**7,733**	3,395
Saltmont Fundo de investimento	**-**	20,376
Saltriver Fundo de investimento	**-**	3,395
	595,813	166,058

d) Intercompany loans payable

	2021	2020
Carlos Eduardo Sanchez	**10,294**	15,256
Total	**10,294**	15,256
Current	**4,580**	4,396
Noncurrent	**5,714**	10,860

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

	2021	2020
Balance at beginning of year	**15,256**	16,654
Reversal of interest	**(134)**	-
Payment of principal	**(4,571)**	(1,142)
Payment of interest	**(257)**	(256)
Balance at December 31	**10,294**	15,256
Current	**4,580**	4,396
Noncurrent	**5,714**	10,860

e) Key management personnel compensation

Compensation paid and payable to key management personnel, including salaries and charges, profit sharing and other benefits, represents 8.53% of payroll expenses for the year ended December 31, 2021 (6.48% at December 31, 2020).

30. Insurance

The Group in which the Company operates maintains global insurance policies of various types, contracted with the main insurance companies in the country. These policies were defined in accordance with the Group's program and took into account the nature and degree of risk involved.

The Group’s insurance coverage against operational risks totals R$842,000 in 2021 (R$742,000 in 2020), and R$10,000 for third-party liability in 2020 and 2020.

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. Events after the reporting period

Corporate restructuring

Given the corporate restructuring strategy focused on the Group’s operating segments, the merger of the total net assets of Novamed into EMS S/A (EMS) was approved 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 2022. Consequently, as of the date of the merger, the operating activities of Novamed will be performed exclusively by EMS.

*   *   *

Luiz Carlos Borgonovi
Chief Executive Officer

Thiago Cardoso T. Tavares
Holding Chief Financial Officer

Rodrigo Miranda Simões
Accountant CRC-1SP250809/O-7