Combined Financial Statements

NC Farma Group

December 31, 2022
with Independent Auditor's Report

NC Farma Group

Combined financial statements

December 31, 2022

Contents

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

Independent auditor’s report on combined financial statements

To the Shareholders, Board of Directors and Officers of
NC Farma Group
Hortolândia - SP

Opinion

We have audited the combined financial statements of NC Farma Group ("NC Group" or "Group"), which comprise the statement of financial position as at December 31, 2022, 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, 2022, and its combined financial performance and cash flows for the year then ended in accordance with the accounting practices adopted in Brazil.

Basis for opinion

We conducted our audit in accordance with the Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the combined financial statements section of our report. We are independent of NC Group 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 1.2 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 NC Group to assess the Group’s combined financial position at December 31, 2022, 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 executive board 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 NC Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the executive board either intends to liquidate the NC Group or to cease its 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 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 8, 2023.

ERNST & YOUNG
Auditores Independentes S/S Ltda.
CRC SP-027623/F

Cristiane Cléria S. Hilario
Accountant CRC SP-243766/O

A free translation from Portuguese into English of combined financial statements prepared in Brazilian currency in accordance with the accounting practices adopted in Brazil

NC Farma Group

Combined statement of financial position
December 31, 2022 and 2021
(In thousands of reais)

	Note	12/31/2022	12/31/2021
Assets			
Current assets			
Cash and cash equivalents	7	**608,235**	229,859
Trade accounts receivable	9	**1,569,063**	1,382,144
Accounts receivable from related parties	27.a	**14,930**	42,560
Inventories	10	**1,582,866**	1,350,554
Taxes recoverable	11	**727,486**	604,028
Other receivables	12	**50,179**	60,482
		4,552,759	3,669,627
Assets from discontinued operations	1.2.a	**36,511**	-
Total current assets		**4,589,270**	3,669,627
Noncurrent assets			
Financial investment earmarked for loans	8	**1,285**	2,007
Taxes recoverable	11	**453,831**	639,023
Judicial deposits	18	**80,604**	54,878
Deferred income and social contribution taxes	19.a	**193,214**	127,669
Other receivables	12	**6,630**	5,076
investments		**-**	467
Right-of-use assets	13.a	**260,310**	178,250
Property, plant and equipment	14	**1,422,111**	1,260,636
Intangible assets		**27,486**	32,599
Total noncurrent assets		**2,445,471**	2,300,605
Total assets		**7,034,741**	5,970,232

	Note	12/31/2022	12/31/2021
Liabilities and equity			
Current liabilities			
Trade payables	16	**751,917**	531,160
Trade payables - related parties	27.a	**12,300**	23,541
Derivative financial instruments	6	**6**	-
Loans and financing	15	**26,485**	297,768
Intercompany loans	27.c	**-**	4,580
Debentures	15	**4,757**	-
Lease liabilities	13.b	**67,209**	78,275
Payroll and related charges	17	**194,948**	140,421
Taxes payable		**47,970**	37,541
Income and social contribution taxes payable	19.c	**125,364**	104,884
Taxes in installments	20	**32,125**	28,222
Dividends payable	27.b	**548,815**	595,813
Other accounts payable	21	**232,691**	137,196
		2,044,587	1,979,401
Liabilities from discontinued operations	1.2.a	**2,023**	-
Total current liabilities		**2,046,610**	1,979,401
Noncurrent liabilities			
Loans and financing	15	**76,687**	102,748
Intercompany loans	27.c	**-**	5,714
Debentures	15	**220,000**	-
Lease liabilities	13.b	**211,355**	108,655
Taxes in installments	20	**13,182**	31,749
Provision for losses on legal proceedings	18	**276,266**	219,778
Deferred income and social contribution taxes	19.a	**56,777**	50,597
Other accounts payable	21	**62,986**	14,195
Total noncurrent liabilities		**917,253**	533,436
Total liabilities		**2,963,863**	2,512,837
Equity	22		
Capital		**1,408,937**	1,399,787
Legal reserve		**44,342**	44,342
Capital reserve		**82,576**	164,019
Tax incentive reserve		**1,361,857**	762,504
Equity adjustment		**10,953**	17,921
Income reserves		**1,156,723**	1,015,000
Equity attributable to controlling interests		**4,065,388**	3,403,573
Noncontrolling interests		**5,490**	53,822
Total equity		**4,070,878**	3,457,395
Total liabilities and equity		**7,034,741**	5,970,232

See accompanying notes.

NC Farma Group

Combined statement of profit or loss
Years ended December 31, 2022 and 2021
(In thousands of reais)

	Note	12/31/2022	12/31/2021
Net operating revenue	23	**6,770,708**	5,713,898
Cost of sales	24	**(2,301,809)**	(1,825,274)
Gross profit		**4,468,899**	3,888,624
Selling expenses	24	**(523,109)**	(507,512)
Administrative expenses	24	**(1,527,099)**	(1,356,773)
Equity pickup		**-**	2,593
Other operating income, net	25	**365**	192,461
Operating income		**2,419,056**	2,219,393
Finance income	26	**307,252**	324,574
Finance costs	26	**(292,320)**	(307,579)
Finance income (costs), net		**14,932**	16,995
Income before income and social contribution taxes		**2,433,988**	2,236,388
Income and social contribution taxes	19.b	**(425,144)**	(412,869)
Net income for the year from continuing operations		**2,008,844**	1,823,519
Discontinued operations			
Net income from discontinued operations	1.2.a	**1,091**	4,741
Net income for the year		**2,009,935**	1,828,260
Net income attributable to controlling interests		**2,000,965**	1,813,030
Net income attributable to noncontrolling interests		**8,970**	15,230
		2,009,935	1,828,260

See accompanying notes.

NC Farma Group

Combined statement of comprehensive income
Years ended December 31, 2022 and 2021
(In thousands of reais)

	12/31/2022	12/31/2021
Net income for the year	**2,009,935**	1,828,260
Other comprehensive income		
Foreign transactions and translation differences	**(6,968)**	(1,621)
Total comprehensive income	**2,002,967**	1,826,639
Comprehensive income attributable to:		
Controlling interests	**1,993,997**	1,811,409
Noncontrolling interests	**8,970**	15,230
Total comprehensive income	**2,002,967**	1,826,639

See accompanying notes.

NC Farma Group

Combined statement of changes in equity
Years ended December 31, 2022 and 2021
(In thousands of reais)

	Note	Capital	Capital reserve	Legal reserve	Tax incentive reserve	Equity adjustment	Income reserve	Retained earnings	Total attributable to controlling interests	Noncontrolling interests	Total equity
January 1, 2021		863,524	164,019	57,545	818,273	19,542	1,378,358	-	3,301,261	(2,786)	3,298,475
Tax incentive reserve paid into capital	22.a	602,254	-	-	(602,254)	-	-	-	-	-	-
Capital increase	22.a	9	-	-	-	-	(9)	-	-	-	-
Impacts from merger of Nova Química – entry of new members		(66,000)	-	(13,203)	(5,319)	-	1,258	(7,538)	(90,802)	90,802	-
Changes in equity interests in subsidiary	1.2	-	-	-	-	-	-	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	22.d	-	-	-	-	519	-	-	519	-	519
Allocation of net income for the year:			-								
Recognition of tax incentive reserve	22.c	-	-	-	551,804	-	-	(551,804)	-	-	-
Additional dividends from previous period, as approved in meeting	22.d	-	-	-	-	-	(1,609,110)	-	(1,609,110)	-	(1,609,110)
Proposed dividends	22.d	-	-	-	-	-	(64,353)	-	(64,353)	-	(64,353)
Transactions with noncontrolling interests		-	-	-	-	-	-	-	-	5,744	5,744
Recognition of income reserve	22.c	-	-	-	-	-	1,308,856	(1,308,856)	-	-	-
Balance at December 31, 2021		1,399,787	164,019	44,342	762,504	17,921	1,015,000	-	3,403,573	53,822	3,457,395
Net income for the year		-	-	-	-	-	-	2,000,965	2,000,965	8,970	2,009,935
Foreign transactions and translation differences	22.d	-	-	-	-	(6,968)	-	-	(6,968)	-	(6,968)
New combined entities	1.2	9,150					(35,174)		(26,024)		(26,024)
Transfer to retained profits reserve	22.c	-	-	-	-	-	176,897	(176,897)	-	-	-
Transfer to tax incentive reserve	22.c	-	-	-	593,863	-	-	(593,863)	-	-	-
Additional recognition of tax incentive reserve	22.c	-	-	-	5,490	-	-	(5,490)	-	-	-
Profit sharing	22.e	-	-	-	-	-	-	(1,157,064)	(1,157,064)	-	(1,157,064)
Mandatory minimum dividends	22.e							(67,651)	(67,651)		(67,651)
Transactions with shareholders – changes in the percentage of interest held (Note 22.b)	22.b	-	(81,443)	-	-	-	-	-	(81,443)	(56,989)	(138,432)
Other transactions with noncontrolling interests		-	-	-	-	-	-	-	-	(313)	(313)
December 31, 2022		1,408,937	82,576	44,342	1,361,857	10,953	1,156,723	-	4,065,388	5,490	4,070,878

See accompanying notes.

NC Farma Group

Combined statement of cash flows
Years ended December 31, 2022 and 2021
(In thousands of reais)

	Note	12/31/2022	12/31/2021
Cash flows from operating activities			
Income before income and social contribution taxes from continuing operations		**2,433,988**	2,236,388
Income before income and social contribution taxes from discontinued operations		**1,091**	5,483
Adjustments for:			
Depreciation and amortization	13 and 14	**127,411**	109,501
Right-of-use assets written off	13	**(2,741)**	(5,616)
(Gain) loss on disposal of property, plant and equipment	14	**2,600**	4,430
(Reversal of) Allowance for expected credit losses	9	**2,478**	(4,972)
Provision for returns	9 and 10	**4,951**	5,599
(Reversal of) Provision for inventory obsolescence	10	**112,973**	25,849
(Reversal of) Provision for losses on legal proceedings	18	**42,120**	68,294
Provision for impairment of assets	13	**42**	-
Loss of equity interest		**-**	45,355
Provision for interest		**64,006**	34,706
Equity pickup		**-**	(2,593)
Unrealized foreign exchange/monetary gains (losses) on financing activities		**(94)**	35,545
Changes in assets and liabilities			
Trade accounts receivable		**(220,892)**	(310,833)
Inventories		**(337,158)**	(187,444)
Accounts receivable from related parties		**50,533**	(808)
Taxes recoverable		**(164,630)**	(660,964)
Other receivables		**10,158**	22,742
Judicial deposits		**(1,769)**	(21,289)
Trade and other payables		**411,509**	1,473
Taxes payable		**3,718**	7,910
Taxes in installments		**(23,004)**	(21,132)
Trade payables - related parties		**(47,450)**	3,814
Cash flows from operating activities		**2,469,840**	1,391,438
Interest paid	15	**(48,363)**	(17,417)
Payment of legal proceedings	18	**(17,989)**	-
Income and social contribution taxes paid	19	**(229,720)**	(201,257)
Net cash flows from operating activities		**2,173,768**	1,172,764
Cash flows from investing activities			
Acquisition of property, plant and equipment	14	**(214,057)**	(140,129)
Acquisition of intangible assets	-	**(1,139)**	-
Increase in interest of subsidiaries	22.a	**(138,432)**	(1,368)
Cash flows from new combined entities	1.2	**4,266**	-
Receivable due to return/write-off of investment of non-subsidiary		**-**	26,964
Other investments		**(6,814)**	6,262
Net cash flows used in investing activities		**(356,176)**	(108,271)
Cash flows from financing activities			
Financial investment earmarked for loans	8	**722**	2,519
Loans and financing raised	15	**305,415**	333,772
Payment of principal on loans and financing	15	**(335,887)**	(355,534)
Foreign exchange gains (losses) on loans and financing	15	**(26,451)**	14,368
Payment of principal on intercompany loans		**(10,294)**	(4,571)
Payment of lease liabilities	13.b	**(80,712)**	(53,678)
Dividends paid out	22	**(1,283,375)**	(1,008,804)
Net cash flows used in financing activities		**(1,430,582)**	(1,071,928)
Increase (decrease) in cash and cash equivalents		**387,010**	(7,435)
Cash and cash equivalents at beginning of year	7	**229,859**	237,295
Cash and cash equivalents from continuing operations at end of year	7	**608,235**	224,862
Cash and cash equivalents from discontinued operations at end of year	1.2.a	**8,634**	4,998

See accompanying notes.

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

1.1. Operations

NC Farma Group (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.

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

So far, the Group's operations have not been significantly impacted by the COVID-19 pandemic. The Company'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.

Impacts of the conflict and sanctions related to Ukraine, Russia and/or Belarus on the Group's business

On February 24, 2022, Russia launched a full-scale military invasion against Ukraine, one of its neighbors to the southwest, marking a sharp escalation to a conflict that began in 2014. As a response, the Western countries and others started to impose sanctions against Russia after it recognized the independence of the Donbas region. With the start of the attacks on February 24, many other countries began to impose sanctions aimed at crippling the Russian economy. Sanctions were broad, targeting individuals, banks, companies, foreign exchanges, bank transfers, exports and imports.

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

1.1. Operations (Continued)

As a result, the conflict began to affect the global economy, mainly in the grain and natural gas industries. So far, the conflict has not significantly impacted the Company, given that its main customers and suppliers operate in the domestic market.

Despite the impacts worldwide and negative effects on several businesses, the war has not significantly impacted the Brazilian pharmaceutical industry so far. Management has been systematically monitoring these impacts and has been monitoring the potential impacts on the Company's financial statements and is prepared to adopt any necessary measures.

1.2. Basis of preparation of the combined financial statements

The combined financial statements of NC Farma Group are being presented for the sole purpose of providing, in a single set of financial statements, information relating to all of the NC Farma Group'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 NC Farma Group, 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:

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

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

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

- 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 would be of 15 years and production began on August 1, 2015.

The Concession Arrangement had been 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. On August 12, 2022, the agreement for the early and amicable termination of the concession arrangement between CPM and FURP was published in the Official Gazette. Refer to Note 27 for further details. The amounts already billed for drugs supplied to SESSP and the final decommissioning activities totaled R$74,451, of which R$50,000 was received in August 2022.

As of March 31, 2022, CPM was classified as a discontinued operation. In order to close its activities, CPM reduced its capital by R$31,208 on November 30, 2022 with the purpose of refunding amounts invested by shareholders.

Assets and liabilities related to discontinued operations are detailed below and include all amounts referring to the financial position and profit or loss incurred throughout 2022 and 2021, when applicable:

(In thousands of reais - R$, unless otherwise stated)

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

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

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

	12/31/2022		12/31/2022
Assets		Liabilities	
Current assets		Current liabilities	
Cash and cash equivalents	**8,634**	Trade payables	**327**
Trade accounts receivable	**23,979**	Trade payables - related parties	**173**
Receivables from related parties	**75**	Lease liabilities	**42**
Inventories	**41**	Taxes payable	**36**
Taxes recoverable	**527**	Income and social contribution taxes payable	**10**
Other receivables	**241**	Other accounts payable	**20**
Total current assets	**33,497**	Total current liabilities	**608**
Noncurrent assets		Noncurrent liabilities	
Taxes recoverable	**2,913**	Provision for losses on legal proceedings	**1,415**
Judicial deposits	**101**	Total noncurrent liabilities	**1,415**
Property, plant and equipment	**-**		
Total noncurrent assets	**3,014**	Total liabilities	**2,023**
Total assets	**36,511**	Total equity (i)	**34,488**
		Total liabilities and equity	**36,511**

(i) The equity balance was eliminated upon combination of the financial statements.

Income (loss) and cash flows from discontinued operations for the years ended December 31, 2022 and 2021 are as follows:

	12/31/2022	12/31/2021
General and administrative expenses and other income (expenses), net	**(296)**	4,654
Operating income (loss)	**(296)**	4,654
Finance income (costs), net	**1,397**	829
Income before income and social contribution taxes	**1,101**	5,483
Income and social contribution taxes	**(10)**	(742)
Net income for the year	**1,091**	4,741

(In thousands of reais - R$, unless otherwise stated)

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

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

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

	12/31/2022	12/31/2021
Income before income and social contribution taxes	**1,091**	5,483
Adjustments for:		
Depreciation and amortization	**334**	1,076
Provision for impairment of assets	**(786)**	(1,493)
Provision for legal proceedings	**957**	(93)
Changes in assets and liabilities		
Trade accounts receivable	**50,772**	-
Inventories	**(169)**	1,361
Accounts receivable from related parties	**(75)**	-
Taxes recoverable	**2,145**	(3,663)
Other receivables	**(44)**	(53)
Trade and other payables	**(523)**	194
Judicial deposits	**(61)**	39
Trade payables - related parties	**-**	(9,212)
Taxes payable	**(4)**	206
Net cash flows from (used in) operating activities	**53,637**	(6,155)
Cash flows from financing activities		
Capital reduction	**(31,208)**	-
Dividends paid to Group shareholders/members	**(18,793)**	-
Net cash flows used in financing activities	**(50,001)**	-
Increase (decrease) in cash and cash equivalents	**3,636**	(6,155)
Cash and cash equivalents at beginning of year	**4,998**	11,153
Cash and cash equivalents at end of year	**8,634**	4,998

- 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.

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

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

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

- 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.
- 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.

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

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

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

- 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 Rodovia Jornalista Francisco A. Proença, Km 08 - Hortolândia, São Paulo. The company was acquired by the NC Group in 2018 through Novamed Fabricação de Produtos Farmacêuticos Ltda. In June 2022, Novamed acquired 12.1% interest in Multilab, which referred to noncontrolling interests, becoming the sole member of Multilab.
- Snellog - Armazéns Gerais e Logística Ltda (Snellog) - a company organized on August 22, 2007 engaged in storing and warehousing goods in general, as well as organizing and transporting cargo. The company's registered office is located at Estrada Municipal Santa Cruz, nº 254 - Jaguariuna – SP. The company was included in the combined financial statements based on the Group's business strategy, whose purpose is to obtain accounting information on all businesses operating in the pharmaceutical market or that have a direct relationship with entities operating in the pharmaceutical market.
- Lafiman Distribuidora de Medicamentos Ltda (Lafiman) - a company organized on November 4, 2003 whose corporate purpose is the trade of own or third-party pharmaceutical, dental, food and cosmetic products, among other related products. The company's registered office is located at Avenida Olivio Franceschini, nº 1704 - Hortolândia – SP. The company was included in the combined financial statements based on the Group's business strategy, whose purpose is to obtain accounting information on all businesses operating in the pharmaceutical market or that have a direct relationship with entities operating in the pharmaceutical market.

(In thousands of reais - R$, unless otherwise stated)

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

1.2. 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:

Shareholder/member (in number of shares/units of interest)	EMS S.A (Consolidated)	Germed (Combined)	Lafiman (Combined)	Snellog (Combined)	Novamed (Consolidated)	Multilab (Consolidated)	EMS Sigma (Consolidated)	Legrand (Consolidated)	Luxbiotech (Consolidated)	Monteresearch (Consolidated)
EMS S.A.	-	-			-	-	7,662,451	136,464	97,516,851	90,000
NC Participações S.A.	19,800,000	10,272,741	1,000,000	8,150,000	-	-	77,398	1,379	206,158	-
Germed Farmacêutica Ltda.	200,000	-	-	-	-	-	-	-	-	-
Novamed Fabricação de Produtos Farmacêuticos Ltda.	-	-	-	-	-	190,238,099	-	-	-	-
Carlos Eduardo Sanchez	-	-	-	-	875,847,771	-	-	-	-	-
Leonardo Sanchez Secundino	-	-	-	-	145,974,629	-	-	-	-	-
Marcus Vinicius Sanchez Secundino	-	-	-	-	145,974,629	-	-	-	-	-
Total at December 31, 2022	20,000,000	10,272,741	1,000,000	8,150,000	1,167,797,029	190,238,099	7,739,849	137,843	97,723,009	90,000

Shareholder/member (in number of shares/units of interest)	EMS S.A (Consolidated)	Germed (Combined)	Novamed (Consolidated)	Multilab (Consolidated)	EMS Sigma (Consolidated)	Legrand (Consolidated)	Luxbiotech (Consolidated)	Monteresearch (Consolidated)
EMS S.A.	-	-	-	-	7,662,451	136,464	97,516,851	90,000
NC Participações S.A.	19,800,000	-	-	-	77,398	1,379	206,158	-
Carlos Eduardo Sanchez	-	-	875,847,771	-	-	-	-	-
Germed Farmacêutica Ltda.	200,000	-	-	-	-	-	-	-
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 at December 31, 2021	20,000,000	10,272,741	1,167,797,029	190,238,099	7,739,849	137,843	97,723,009	90,000

(In thousands of reais - R$, unless otherwise stated)

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

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

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

Summary financial information of each combined entity:

Statement of financial position - December 31, 2022	EMS S.A (Individual)	Germed	Lafiman	Snellog	Novamed (Individual)	Multilab	EMS Sigma	Legrand	Luxbiotech	Monteresearch	Rio Bio Pharmaceuticals	Eliminations	Discontinued operations	Combined
Current assets	2,879,871	494,414	20,586	26,796	2,563,260	651,170	87,078	409,760	63,163	7,734	212	(2,238,929)	33,497	4,998,612
Noncurrent assets	1,790,264	77,989	12,177	86,501	1,042,872	159,875	174,615	81,033	19,600	1,555	-	(1,004,024)	3,014	2,445,471
Current liabilities	(2,940,627)	(99,329)	(5,749)	(42,834)	(328,492)	(177,549)	(245,898)	(177,651)	(14,814)	(4,409)	-	1,991,350	(608)	(2,046,610)
Noncurrent liabilities	(587,934)	(40,179)	(62,361)	(63,914)	(94,509)	(28,227)	(8,240)	(17,008)	(21,921)	-	-	8,455	(1,415)	(917,253)
Equity	(1,141,574)	(432,895)	35,347	(6,549)	(3,183,131)	(605,269)	(7,555)	(296,134)	(46,028)	(4,880)	(212)	1,243,148	(34,488)	(4,480,220)

Statement of profit or loss – December 31, 2022	EMS S.A. (Individual)	Germed	Lafiman	Snellog	Novamed (Individual)	Multilab	EMS Sigma	Legrand	Luxbiotech	Monteresearch	Rio Bio Pharmaceuticals	Eliminations	Discontinued operations	Combined
Net operating revenue	5,105,683	947,869	28,815	66,604	3,077,188	1,094,402	314,167	811,797	6,388	5,625	-	(4,679,240)	-	6,779,298
Cost of sales	(3,328,390)	(516,976)	(21,130)	(68,180)	(1,395,480)	(737,026)	(310,484)	(465,752)	(5,845)	(568)	-	4,539,432	-	(2,310,399)
Gross profit	1,777,293	430,893	7,685	(1,576)	1,681,708	357,376	3,683	346,045	543	5,057	-	(139,808)	-	4,468,899
Operating expenses	(1,454,075)	(191,264)	(4,963)	3,336	81,538	(76,636)	(4,489)	(142,024)	(39,819)	(11,991)	(17,811)	(191,645)	-	(2,049,843)
Finance income (costs), net	(10,152)	6,483	516	(9,539)	5,739	10,237	(187)	6,845	5,001	(2)	(9)	-	-	14,932
Income (loss) before taxes	313,066	246,112	3,238	(7,779)	1,768,985	290,977	(993)	210,866	(34,275)	(6,936)	(17,820)	(331,453)	-	2,433,988
Income and social contribution taxes	(1,771)	(90,702)	(727)	2,496	(168,838)	(96,634)	423	(70,694)	1,303	-	-	-	-	(425,144)
Net income (loss) from continuing operations	311,295	155,410	2,511	(5,283)	1,600,147	194,343	(570)	140,172	(32,972)	(6,936)	(17,820)	(331,453)		2,008,844
Net income (loss) from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	1,091	1,091

NC Farma Group

Notes to the combined financial statements (Continued)
December 31, 2022 and 2021
(In thousands of reais - R$, unless otherwise stated)

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

1.2. 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 - December 31, 2021	EMS S.A (Individual)	Germed	Novamed (Individual)	Multilab	CPM	EMS Sigma	Legrand	Luxbiotech	Monteresearch	Rio Bio Pharmaceuticals	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	(1,859,037)	3,669,627
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)	1,670,480	(1,979,401)
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 – December 31, 2021	EMS S.A. (Individual)	Germed	Novamed (Individual)	Multilab	CPM	EMS Sigma	Legrand	Luxbiotech	Monteresearch	Rio Bio Pharmaceuticals	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

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

1.2. 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 intragroup balances and transactions, as well as any unrealized revenues and expenses from intragroup 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 approved for disclosure by the Board of Directors on March 8, 2023.

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.

2. Basis of preparation and statement of compliance

The combined financial statements were prepared 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 combined financial statements are presented in Brazilian reais (R$), which is the Company's functional currency, unless otherwise stated. The financial statements were prepared on a historical cost basis, except where otherwise required.

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. 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, 2022 and 2021 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:

Disclosures of judgements, assumptions and estimation uncertainties as at December 31, 2022 and 2021 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; and
- 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.
- 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.

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.

3. Use of estimates and judgments (Continued)

i) 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.

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.

4. Significant accounting policies

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

a) Foreign currency

i) *Transactions and balances in foreign currency*

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

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

4. Significant accounting policies (Continued)

a) Foreign currency (Continued)

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.

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.

4. Significant accounting policies (Continued)

b) Financial instruments (Continued)

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.

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.

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.

4. Significant accounting policies (Continued)

b) Financial instruments (Continued)

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, financial liabilities at amortized cost, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are initially measured at fair value, plus or less, in the case of financial liabilities not measured at fair value through profit or loss, transaction costs that are directly attributable to issue of the financial liability.

The Group's financial liabilities include mostly trade accounts payable, lease liabilities, and transactions with related parties.

The Group does not have hedge accounting transactions as of December 31, 2022 and 2021.

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.

Offset of financial instruments

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.

4. Significant accounting policies (Continued)

b) Financial instruments (Continued)

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

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.

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.

4. Significant accounting policies (Continued)

b) Financial instruments (Continued)

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 payables

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.

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.

4. 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 2022 and 2021, as follows:

	Years 2022 and 2021
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.

4. Significant accounting policies (Continued)

e) Intangible assets (Continued)

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 2022 and 2021 are as follows:

	Years
Trademarks and patents	5 - 8
Software	5
Capitalized development costs	5
Customer portfolio	15

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.

4. 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.

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.

4. Significant accounting policies (Continued)

g) Leases (Continued)

Definition of a lease (Continued)

Contracts that were not identified as leases in accordance with CPC 06(R1) and ICPC 03 were not reassessed to determine whether they contained a lease in accordance with CPC 06(R2). Accordingly, the definition of a lease under CPC 06(R2) was only applied to contracts entered into or modified on or after January 1, 2019.

a) *As a lessee*

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

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

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

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

4. Significant accounting policies (Continued)

g) Leases (Continued)

Definition of a lease (Continued)

a) *As a lessee* (Continued)

i) Leases classified as operating leases in accordance with CPC 06 (R2) (Continued)

- 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.

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.

4. Significant accounting policies (Continued)

g) Leases (Continued)

Definition of a lease (Continued)

b) *As a lessor* (Continued)

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:

- 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.

(In thousands of reais - R$, unless otherwise stated)

4. Significant accounting policies (Continued)

g) Leases (Continued)

Definition of a lease (Continued)

c) *Impact on financial statements* (Continued)

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, 2022. The discount rates are shown below:

	Contracts - 2022	Contracts - 2021
Within 1 year	**15.16%**	9.35%
Up to 2 years	**14.97%**	10.24%
Up to 5 years	**13.93%**	10.95%
Up to 10 years	**14.04%**	11.57%
Up to 20 years	**14.15%**	11.98%
More than 20 years	**14.15%**	11.98%

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:

4. Significant accounting policies (Continued)

i) Revenue from contracts with customers (Continued)

- 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.

The Group operates in the pharmaceutical industry, by supplying generic drugs in general. Revenue from contracts with customers is recognized when control of the products sold is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those products.

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.

4. Significant accounting policies (Continued)

i) Revenue from contracts with customers (Continued)

iii) *Rights of return*

The Group uses the expected value method to estimate the variable consideration given the large number of contracts that have similar characteristics. The Group then applies the requirements of CPC 47 on constraining estimates of variable consideration in order to determine the amount of variable consideration that can be included in the transaction price and recognized as revenue. A refund liability is recognized for the goods that are expected to be returned (i.e., the amount not included in the transaction price). A right of return asset (and corresponding adjustment to cost of sales) is also recognized for the right to recover the goods from the customer.

iv) *Volume rebates*

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. The Group applies either the most likely amount method or the expected value method to estimate the variable consideration in the contract. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract.

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.

4. Significant accounting policies (Continued)

k) Government grants

Government grants are recognized when there is reasonable certainty that the benefit will be received and that all the related conditions will be met. 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 offset, are expensed.

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

4. **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 NC Group, 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).

4. 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.

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.

4. Significant accounting policies (Continued)

l) <u>Current and deferred income and social contribution taxes</u> (Continued)

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.

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.

4. Significant accounting policies (Continued)

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

iii) *Deferred income and social contribution tax expenses* (Continued)

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 be 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.

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.

4. Significant accounting policies (Continued)

m) Provisions (Continued)

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.

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.

4. Significant accounting policies (Continued)

o) Financial guarantees

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

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

As at December 31, 2022 and 2021, 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.

q) Assets and liabilities held for sale and discontinued operations

A line of business or subsidiary is classified as a discontinued operation upon the sale and/or termination of operations of a component of the company that represents an important separate line of business or when the operation meets the criteria to be classified as held for sale. Thus, its income (loss) and cash flows will be presented separately by classifying the respective assets and liabilities as a discontinued operation.

Assets and liabilities held for sale and discontinued operations are measured at the lower of their carrying amount and fair value less costs to sell and presented separately in the statement of financial position.

5. New standards and interpretations

5.1. New or revised standards applied for the first time in 2022

The Company applied for the first time certain standards and amendments to standards effective for annual periods beginning on or after January 1, 2022 (unless otherwise stated). The Company decided against the early adoption of any other standard, interpretation or amendment issued that is not already in force.

Amendments to CPC 37 (R1), CPC 48, CPC 29, CPC 27, CPC 25 and CPC 15 (R1)

The amendments to the abovementioned pronouncements are due to the annual amendments related to the cycle of improvements between 2018 and 2020, such as:

- Onerous contract – costs of fulfilling a contract;
- Property, plant and equipment – proceeds before the intended use; and
- References to the Conceptual Framework.

The effectiveness of these amendments must be established by the regulatory bodies that approve them, and, for full compliance with the international accounting standards, the entity must apply these amendments in annual periods beginning on or after January 1, 2022.

Onerous contract – costs of fulfilling a contract

An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Company cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

The amendments specify that, in assessing whether a contract is onerous or loss-making, the entity must include the costs that relate directly to the contract for the provision of goods or services, including incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract and costs incurred to manage and supervise the contract). General and administrative costs are not directly related to a contract and are excluded unless explicitly charged to the counterparty under the terms of the contract.

These amendments had no impact on the Company's financial statements since no onerous contracts have been identified.

5. New standards and interpretations (Continued)

5.1. New or revised standards applied for the first time in 2022 (Continued)

References to the Conceptual Framework

The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 Business Combinations (equivalent to CPC 15 (R1) – Business Combinations) to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets (equivalent to CPC 25 – Provisions, Contingent Liabilities and Contingent Assets) or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

In accordance with the transitional provisions, the Company applies the amendments prospectively, i.e., to business combinations occurring after the beginning of the annual reporting period in which it first applies the amendments (the date of initial application).

These amendments had no impact on the financial statements of the Company as there were no contingent assets, liabilities or contingent liabilities within the scope of these amendments that arose during the period.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 (equivalent to CPC 37 (R1) – First-time Adoption of International Accounting Standards) to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

These amendments had no impact on the Company's financial statements since the Company is not a first-time adopter.

5. New standards and interpretations (Continued)

5.1. New or revised standards applied for the first time in 2022 (Continued)

IFRS 9 Financial Instruments – Fees in the ‘10 per cent’ test for derecognition of financial liabilities (equivalent to CPC 48 – Financial Instruments)

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf.

In accordance with the transitional provisions, the Group applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application). These amendments had no impact on the financial statements as there were no modifications of the financial instruments during the period.

IAS 41 Agriculture – Taxation in fair value measurements (equivalent to CPC 29 - Biological Assets and Agricultural Produce)

The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

These amendments had no impact on the Company’s financial statements since it did not have assets within the scope of IAS 41 at the reporting date.

5.2. Standards issued but not yet effective

The new and amended standards and interpretations issued but not yet in effect until the financial statements issue date are described below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

5. New standards and interpretations (Continued)

5.2. Standards issued, but not yet effective (Continued)

IFRS 17 - Insurance Contracts

In May 2017, the IASB issued IFRS 17 - Insurance Contracts (CPC 50 - Insurance Contracts, which replaced CPC 11 - Insurance Contracts), a new comprehensive standard for accounting for insurance contracts that includes recognition and measurement, presentation and disclosure. Upon taking effect, IFRS 17 (CPC 50) replaced IFRS 4 - Insurance Contracts (CPC 11), issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, nonlife, direct insurance and reinsurance), regardless of the type of entity that issues them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation to contracts with direct participation features (variable rate approach);
- A simplified approach (premium allocation approach) mainly for short-term contracts.

IFRS 17 and CPC 50 are effective for periods beginning on or after January 01, 2023, and presentation of amounts for comparison purposes is required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Company.

Amendments to IAS 1: Classification of liabilities as current or noncurrent (equivalent to review 20 of the Brazilian FASB (CPC))

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

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right; and

5. New standards and interpretations (Continued)

5.2. Standards issued, but not yet effective (Continued)

Amendments to IAS 1: Classification of liabilities as current or noncurrent (equivalent to review 20 of the Brazilian FASB (CPC)) (Continued)

That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

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

Amendments to IAS 8: Definition of accounting estimates (equivalent to review 20 of the Brazilian FASB (CPC)

In February 2021, the IASB issued amendments to IAS 8 (correlated with CPC 23), in which it introduces a definition of ‘accounting estimates’. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Early adoption is permitted as long as this fact is disclosed.

These amendments are not expected to have a significant impact on the Company’s financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of accounting policies (equivalent to review 20 of the Brazilian FASB (CPC)

In February 2021, the IASB issued amendments to IAS 1 (standard corresponding to CPC 26 (R1)) and IFRS Practice Statement 2 Making Materiality Judgments, in which it provides guidance and examples to help entities apply materiality judgment for the disclosure of accounting policies. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their significant accounting policies with a requirement to disclose their material accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

5. New standards and interpretations (Continued)

5.2. Standards issued, but not yet effective (Continued)

<u>Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of accounting policies (equivalent to review 20 of the Brazilian FASB (CPC)</u> (Continued)

Amendments to IAS 1 are applicable for annual reporting periods beginning on or after January 1, 2023, and earlier adoption is permitted. Since the amendments to the Practice Statement 2 provide nonmandatory guidance on the application of the definition of material to accounting policy information, an adoption date for these amendments is not necessary.

The Company is currently revisiting their accounting policy information disclosures to ensure consistency with the amended requirements.

<u>Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (equivalent to review 20 of the Brazilian FASB (CPC)</u>

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognized for all deductible and taxable temporary differences associated with leases and decommissioning obligations. The Company is currently assessing the impact of the amendments.

6. 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.

(In thousands of reais - R$, unless otherwise stated)

6. Financial risk management (Continued)

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

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 and with financial institutions through finance leases in foreign currency.

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:

	12/31/2022		**12/31/2021**	
	Foreign currency	**Reais**	**Foreign currency**	**Reais**
Trade accounts receivable	**4,105**	**21,196**	3,331	17,841
Trade payables	**(58,121)**	**(312,442)**	(48,625)	(268,974)
Finance lease	**-**	**-**	(47,413)	(264,591)
Net exposure	**(54,016)**	**(291,246)**	(92,707)	(515,724)

(In thousands of reais - R$, unless otherwise stated)

6. Financial risk management (Continued)

b) Market risk (Continued)

i) *Currency risk* (Continued)

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:

Risk	Type	Exposure	Original exposure (R$)	Effective rate at 12/31/2022	Probable Amount	25% appreciation %	25% appreciation Amount	50% appreciation %	50% appreciation Amount
Increase in USD	Trade accounts receivable	**3,178**	**16,040**	**5.22**	**542**	**6.52**	**4,687**	**7.83**	**8,833**
Increase in Euro	Trade accounts receivable	**927**	**5,156**	**5.57**	**7**	**6.96**	**1,298**	**8.35**	**2,588**
Increase in USD	Trade payables	**(53,159)**	**(283,711)**	**5.22**	**6,343**	**6.52**	**(62,999)**	**7.83**	**(132,341)**
Increase in Euro	Trade payables	**(4,962)**	**(28,731)**	**5.57**	**1,096**	**6.96**	**(5,813)**	**8.35**	**(12,722)**
		(54,016)	**(291,246)**		**7,988**		**(62,827)**		**(133,642)**

Risk	Type	Exposure	Original exposure (R$)	Effective rate at 12/31/2022	Probable Amount	25% devaluation %	25% devaluation Amount	50% devaluation %	50% devaluation Amount
Increase in USD	Trade accounts receivable	**3,178**	**16,040**	**5.22**	**542**	**3.91**	**(3,604)**	**2.61**	**(7,749)**
Increase in Euro	Trade accounts receivable	**927**	**5,156**	**5.57**	**7**	**4.18**	**(1,284)**	**2.78**	**(2,575)**
Decrease in USD	Trade payables	**(53,159)**	**(283,711)**	**5.22**	**6,343**	**3.91**	**75,685**	**2.61**	**145,027**
Decrease in Euro	Trade payables	**(4,962)**	**(28,731)**	**5.57**	**1,096**	**4.18**	**8,004**	**2.78**	**14,913**
		(54,016)	**(291,246)**		**7,988**		**78,801**		**149,616**

Risk	Type	Exposure	Original exposure (R$)	Effective rate at 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 payables	(45,335)	(252,919)	5.58	(55)	6.98	(63,297)	8.37	(126,541)
Increase in EUR	Trade payables	(2,423)	(16,012)	6.32	697	7.90	(3,132)	9.48	(6,961)
Increase in JPY	Trade payables	(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)

(In thousands of reais - R$, unless otherwise stated)

6. Financial risk management (Continued)

b) Market risk (Continued)

i) *Currency risk* (Continued)

Sensitivity analysis - currency risk (Continued)

Risk	Type	Exposure	Original exposure (R$)	Effective rate at 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 payables	(45,335)	(252,919)	5.58	(55)	4.19	63,190	2.79	126,432
Decrease in Euro	Trade payables	(2,423)	(16,012)	6.32	697	4.74	4,526	3.16	8,354
Decrease in JPY	Trade payables	(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

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 is as follows:

	12/31/2022	12/31/2021
Cash and cash equivalents (Note 6)	**608,235**	229,859
Trade accounts receivable (Note 8)	**1,569,063**	1,382,144
Accounts receivable from related parties	**14,930**	42,560
Other receivables (Note 11)	**56,809**	65,558
Financial investment earmarked for loans (Note 7)	**1,285**	2,007
	2,250,322	1,722,128

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).

6. 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, 2022 and 2021, the Group had issued guarantees to banks in connection with the lines of credit granted to Group companies, as follows:

- EMS has a letter of guarantee in the amount of R$15,535, mainly for the FINEP loan (contract No. 0916001000) in the amount of R$15,174 (Note 15).

Additionally, the Group 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.

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.

(In thousands of reais - R$, unless otherwise stated)

6. Financial risk management (Continued)

b) Market risk (Continued)

iii) *Liquidity risk* (Continued)

	Cash flows	Before 1 year	1 to 2 years	2 to 5 years	After 5 years
December 31, 2022					
Trade and other accounts payable	**(1,005,613)**	**(984,627)**	**(20,986)**	**-**	**-**
Trade payables - related parties	**(12,300)**	**(12,300)**	**-**	**-**	**-**
Loans and financing	**(123,823)**	**(38,379)**	**(30,930)**	**(54,514)**	**-**
Debentures	**(332,580)**	**(32,076)**	**(32,609)**	**(267,895)**	**-**
Lease liabilities	**(397,599)**	**(77,803)**	**(60,455)**	**(149,552)**	**(109,789)**
Dividends payable	**(548,815)**	**(548,815)**	**-**	**-**	**-**
Net position	**(2,420,730)**	**(1,694,000)**	**(144,980)**	**(471,961)**	**(109,789)**

	Cash flows	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 - related parties	(23,541)	(23,541)	-	-	-
Loans and financing	(400,516)	(297,768)	(30,013)	(23,402)	(49,333)
Intercompany loans	(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)

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.

(In thousands of reais - R$, unless otherwise stated)

6. Financial risk management (Continued)

b) Market risk (Continued)

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.

The financial leverage ratios as at December 31, 2022 and 2021 are summarized below:

	12/31/2022	12/31/2021
Total loans, financing and debentures (Note 14)	**327,929**	410,810
Total lease liabilities (Note 12)	**278,564**	186,930
(-) Cash and cash equivalents (Note 6)	**(608,235)**	(229,859)
(-) Financial investment earmarked for loans (Note 7)	**(1,285)**	(2,007)
Net debt	**(3,027)**	365,874
Total equity attributable to controlling interests	**4,065,388**	3,403,573
Total capital (equity + net debt)	**4,062,361**	3,769,447
Financial leverage ratio	**-**	0.10%

vi) *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 are indexed. The interest rates did not change in these scenarios.

(In thousands of reais - R$, unless otherwise stated)

6. Financial risk management (Continued)

b) Market risk (Continued)

vi) *Interest rate risk* (Continued)

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

Exposure	Risk	Type	Maturity	Effective rate 12/31/2022	Probable Amount	25% appreciation %	25% appreciation Amount	50% appreciation %	50% appreciation Amount
1,285	Increase in CDI	Financial investment	10/01/2046	9.38%	120	11.72%	151	14.06%	181
580,682	Increase in CDI	Financial investment	12/29/2027	11.72%	68,056	14.65%	85,070	17.58%	102,084
581,967					68,176		85,221		102,265

Exposure	Risk	Type	Maturity	Effective rate 12/31/2022	Probable Amount	25% devaluation %	25% devaluation Amount	50% devaluation %	50% devaluation Amount
1,285	Decrease in CDI	Financial investment	10/01/2046	9.38%	120	7.03%	90	4.69%	60
580,682	Decrease in CDI	Financial investment	12/29/2027	11.72%	68,056	8.79%	51,042	5.86%	34,028
581,967					68,176		51,132		34,088

(In thousands of reais - R$, unless otherwise stated)

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

b) Market risk (Continued)

vi) *Interest rate risk* (Continued)

Exposure and sensitivity analysis - interest rate risk (Continued)

				Effective rate	Probable	25% appreciation		50% appreciation	
Exposure	**Risk**	**Type**	**Maturity**	**at 12/31/2021**	**Amount**	**%**	**Amount**	**%**	**Amount**
95	Increase in CDI	Investment (assets)	10/01/2046	3.54%	3	4.42%	4	5.30%	5
128	Increase in CDI	Investment (assets)	06/07/2046	3.58%	5	4.48%	6	5.37%	7
141	Increase in CDI	Investment (assets)	05/02/2047	3.76%	5	4.70%	7	5.64%	8
209	Increase in CDI	Investment (assets)	10/02/2023	4.46%	9	5.58%	12	6.70%	14
1,430	Increase in CDI	Investment (assets)	06/21/2023	4.64%	66	5.80%	83	6.96%	100
28,314	Increase in CDI	Investment (assets)	10/03/2022	4.31%	1,220	5.39%	1,525	6.46%	1,830
1,568	Increase in CDI	Investment (assets)	09/02/2022	4.42%	69	5.53%	87	6.63%	104
741	Increase in CDI	Investment (assets)	01/28/2022	2.87%	21	3.59%	27	4.31%	32
10,287	Increase in CDI	Investment (assets)	03/18/2022	3.32%	341	4.14%	426	4.97%	512
260	Increase in CDI	Investment (assets)	03/04/2022	3.45%	9	4.31%	11	5.17%	13
3,800	Increase in CDI	Investment (assets)	01/13/2022	3.80%	144	4.75%	181	5.70%	217
283	Increase in CDI	Investment (assets)	04/25/2022	3.98%	11	4.97%	14	5.97%	17
24,542	Increase in CDI	Investment (assets)	12/03/2025	4.89%	1,200	6.11%	1,500	7.34%	1,800
12,421	Increase in CDI	Investment (assets)	01/26/2022	2.87%	356	3.59%	446	4.31%	535
12,409	Increase in CDI	Investment (assets)	12/03/2025	4.29%	532	5.36%	665	6.44%	799
8,984	Increase in CDI	Investment (assets)	01/31/2022	2.65%	238	3.32%	298	3.98%	358
3,268	Increase in CDI	Investment (assets)	03/18/2022	3.32%	108	4.14%	135	4.97%	162
1,280	Increase in CDI	Investment (assets)	01/10/2022	3.80%	49	4.75%	61	5.70%	73
831	Increase in CDI	Investment (assets)	03/04/2022	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)	01/28/2022	2.87%	679	3.59%	848	4.31%	1,018
9,466	Increase in CDI	Investment (assets)	12/03/2025	4.29%	406	5.36%	508	6.44%	609
6,663	Increase in CDI	Investment (assets)	01/31/2022	2.65%	177	3.32%	221	3.98%	265
5,171	Increase in CDI	Investment (assets)	03/18/2022	3.32%	171	4.14%	214	4.97%	257
4,293	Increase in CDI	Investment (assets)	01/10/2022	3.80%	163	4.75%	204	5.70%	245
611	Increase in CDI	Investment (assets)	03/04/2022	3.45%	21	4.31%	26	5.17%	32
195,132					7,473		9,346		11,216

(In thousands of reais - R$, unless otherwise stated)

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

b) Market risk (Continued)

vi) *Interest rate risk* (Continued)

Exposure and sensitivity analysis - interest rate risk (Continued)

Exposure	Risk	Type	Maturity	Effective rate at 12/31/2021	Probable Amount	25% devaluation %	25% devaluation Amount	50% devaluation %	50% devaluation Amount
95	Decrease in CDI	Investment (assets)	10/01/2046	3.54%	3	2.65%	3	1.77%	2
128	Decrease in CDI	Investment (assets)	06/07/2046	3.58%	5	2.69%	3	1.79%	2
141	Decrease in CDI	Investment (assets)	05/02/2047	3.76%	5	2.82%	4	1.88%	3
209	Decrease in CDI	Investment (assets)	10/02/2023	4.46%	9	3.35%	7	2.23%	5
1,430	Decrease in CDI	Investment (assets)	06/21/2023	4.64%	66	3.48%	50	2.32%	33
28,314	Decrease in CDI	Investment (assets)	10/03/2022	4.31%	1,220	3.23%	915	2.15%	610
1,568	Decrease in CDI	Investment (assets)	09/02/2022	4.42%	69	3.32%	52	2.21%	35
-	Decrease in CDI	Investment (assets)	01/24/2022	2.65%	0	1.99%	0	1.33%	0
741	Decrease in CDI	Investment (assets)	01/28/2022	2.87%	21	2.15%	16	1.44%	11
10,287	Decrease in CDI	Investment (assets)	03/18/2022	3.32%	341	2.49%	256	1.66%	171
260	Decrease in CDI	Investment (assets)	03/04/2022	3.45%	9	2.59%	7	1.72%	4
3,800	Decrease in CDI	Investment (assets)	01/13/2022	3.80%	144	2.85%	108	1.90%	72
283	Decrease in CDI	Investment (assets)	04/25/2022	3.98%	11	2.98%	8	1.99%	6
24,542	Decrease in CDI	Investment (assets)	12/03/2025	4.89%	1,200	3.67%	900	2.45%	600
12,421	Decrease in CDI	Investment (assets)	01/26/2022	2.87%	356	2.15%	267	1.44%	179
12,409	Decrease in CDI	Investment (assets)	12/03/2025	4.29%	532	3.22%	400	2.15%	267
8,984	Decrease in CDI	Investment (assets)	01/31/2022	2.65%	238	1.99%	179	1.33%	119
3,268	Decrease in CDI	Investment (assets)	03/18/2022	3.32%	108	2.49%	81	1.66%	54
1,280	Decrease in CDI	Investment (assets)	01/10/2022	3.80%	49	2.85%	36	1.90%	24
831	Decrease in CDI	Investment (assets)	03/04/2022	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)	01/28/2022	2.87%	679	2.15%	509	1.44%	339
9,466	Decrease in CDI	Investment (assets)	12/03/2025	4.29%	406	3.22%	305	2.15%	203
6,663	Decrease in CDI	Investment (assets)	01/31/2022	2.65%	177	1.99%	133	1.33%	88
5,171	Decrease in CDI	Investment (assets)	03/18/2022	3.32%	171	2.49%	129	1.66%	86
4,293	Decrease in CDI	Investment (assets)	01/10/2022	3.80%	163	2.85%	122	1.90%	82
611	Decrease in CDI	Investment (assets)	03/04/2022	3.45%	21	2.59%	16	1.72%	11
195,132					7,473		5,609		3,740

Exposure	Risk	Type	Effective rate 12/31/2022 %	Probable Amount	25% appreciation %	25% appreciation Amount	50% appreciation %	50% appreciation Amount
224,757	Debentures	Debentures (liabilities)	**100**	**15,674**	**125**	**19,593**	**150**	**23,511**
3,259	FINEP	Loan (liabilities)	**100**	**828**	**125**	**1,035**	**150**	**1,242**
91,848	BNDES	Loan (liabilities)	**100**	**11,802**	**125**	**14,753**	**150**	**17,703**
11	FINAME	Loan (liabilities)	**100**	**2**	**125**	**3**	**150**	**3**
8,054	Banco Regional de Brasília	Loan (liabilities)	**100**	**-**	**125**	**-**	**150**	**-**
278,564	Lease liabilities	Lease liabilities	**100**	**40,118**	**125**	**50,147**	**150**	**60,177**
606,493				**68,424**		**85,531**		**102,636**

(In thousands of reais - R$, unless otherwise stated)

6. Financial risk management (Continued)

b) Market risk (Continued)

vi) *Interest rate risk* (Continued)

Exposure and sensitivity analysis - interest rate risk (Continued)

Exposure	Type	Classification	Effective rate 12/31/2022 %	Probable Amount	25% devaluation %	25% devaluation Amount	50% devaluation %	50% devaluation Amount
224,757	Debentures	Debentures (liabilities)	**100**	**15,674**	**75**	**11,756**	**50**	**7,837**
3,259	FINEP	Loan (liabilities)	**100**	**828**	**75**	**621**	**50**	**414**
91,848	BNDES	Loan (liabilities)	**100**	**11,802**	**75**	**8,852**	**50**	**5,901**
11	FINAME	Loan (liabilities)	**100**	**2**	**75**	**2**	**50**	**1**
8,054	Banco Regional de Brasília	Loan (liabilities)	**100**	**-**	**75**	**-**	**50**	**-**
278,564	Lease liabilities	Lease liabilities	**100**	**40,118**	**75**	**30,088**	**50**	**20,059**
606,493				**68,424**		**51,319**		**34,212**

Exposure	Type	Classification	Effective rate at 12/31/2021 %	Probable Amount	25% appreciation %	25% appreciation Amount	50% appreciation %	50% appreciation Amount
264,591	Finance lease	Loan (liabilities)	100	2,308	125	2,885	150	3,462
16,235	FINEP	Loan (liabilities)	100	51	125	64	150	77
111,513	BNDES	Loan (liabilities)	100	2,315	125	2,894	150	3,473
122	FINAME	Loan (liabilities)	100	-	125	-	150	-
8,055	Banco Regional de Brasília	Loan (liabilities)	100	265	125	331	150	397
127,620	Lease liabilities	Lease liabilities	100	11,672	125	14,590	150	17,508
51,343	Leases	Lease (liabilities)	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 (liabilities)	Lease (liabilities)	100	795	125	8,961	150	9,160
597,740				33,354		49,660		57,999

Exposure	Type	Classification	Effective rate at 12/31/2021 %	Probable Amount	25% devaluation %	25% devaluation Amount	50% devaluation %	50% devaluation Amount
264,591	Finance lease	Loan (liabilities)	100	2,308	75	1,731	50	1,154
16,235	FINEP	Loan (liabilities)	100	51	75	38	50	26
111,513	BNDES	Loan (liabilities)	100	2,315	75	1,736	50	1,158
122	FINAME	Loan (liabilities)	100	-	75	-	50	-
8,055	Banco Regional de Brasília	Loan (liabilities)	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 (liabilities)	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 (liabilities)	Lease (liabilities)	100	795	75	7,371	50	7,569
597,740				33,354		31,790		23,849

(In thousands of reais - R$, unless otherwise stated)

6. Financial risk management (Continued)

b) Market risk (Continued)

vii) *Derivatives*

At December 31, 2022, the transactions involving derivative instruments (liabilities) contracted by the Group referred to forward contract balances (NDF), which totaled R$167,348. Income (loss) from operations not yet settled represented losses in the amount of R$6. At December 31, 2022, these operations were contracted at the dollar (USD) and euro (EUR) rates, with maturity between January 3, 2023 and March 27, 2023.

viii) *Accounting classification and measurement of fair values and 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:

	12/31/2022	12/31/2021
Fair value through profit or loss		
Cash and cash equivalents	**608,235**	229,859
Financial investment earmarked for loans	**1,285**	2,007
Amortized cost		
Trade accounts receivable	**1,569,063**	1,382,144
Accounts receivable from related parties	**14,930**	42,560
Other receivables	**56,809**	65,558
	2,250,322	1,722,128
Amortized cost		
Trade payables	**(751,917)**	(531,160)
Trade payables - related parties	**(12,300)**	(23,541)
Loans and financing	**(103,172)**	(400,516)
Intercompany loans	**-**	(10,294)
Debentures	**(224,757)**	-
Lease liabilities	**(278,564)**	(186,930)
Dividends payable	**(548,815)**	(595,813)
Other accounts payable	**(253,677)**	(155,971)
Fair value through profit or loss		
Derivative financial instruments	**(6)**	-
	(2,173,208)	(1,904,225)

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

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

(In thousands of reais - R$, unless otherwise stated)

6. Financial risk management (Continued)

b) Market risk (Continued)

viii) *Accounting classification and measurement of fair values and instruments* (Continued)

In measuring the fair value of an asset or liability, the Group uses observable market inputs whenever these are available. The fair values are classified in different levels in the following hierarchy based on *inputs* used in valuation techniques, as described in Note 3 (i) above.

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:

		12/31/2022		12/31/2021	
	Fair value measurement	Fair value	Book value	Fair value	Book value
Assets					
Cash and cash equivalents	Level 2	**608,235**	**608,235**	229,859	229,859
Financial investment earmarked for loans	Level 2	**1,285**	**1,285**	2,007	2,007
Trade accounts receivable	Level 2	**1,569,063**	**1,569,063**	1,382,144	1,382,144
Accounts receivable from related parties	Level 2	**14,930**	**14,930**	42,560	42,560
Other receivables	Level 2	**56,809**	**56,809**	65,558	65,558
		2,250,322	**2,250,322**	1,722,128	1,722,128
Liabilities					
Trade payables	Level 2	**(751,917)**	**(751,917)**	(531,160)	(531,160)
Trade payables - related parties	Level 2	**(12,300)**	**(12,300)**	(23,541)	(23,541)
Loans and financing	Level 2	**(103,172)**	**(103,172)**	(400,516)	(400,516)
Intercompany loans	Level 2	**-**	**-**	(10,294)	(10,294)
Debentures	Level 2	**(224,757)**	**(224,757)**	-	-
Lease liabilities	Level 2	**(278,564)**	**(278,564)**	(186,930)	(186,930)
Dividends payable	Level 2	**(548,815)**	**(548,815)**	(595,813)	(595,813)
Other accounts payable	Level 2	**(253,683)**	**(253,683)**	(151,391)	(151,391)
		(2,173,208)	**(2,173,208)**	(1,899,645)	(1,899,645)

(In thousands of reais - R$, unless otherwise stated)

6. Financial risk management (Continued)

b) Market risk (Continued)

viii) *Accounting classification and measurement of fair values and instruments* (Continued)

The Group used the following methods and assumptions to estimate the fair value disclosure of its financial instruments as at December 31, 2022 and 2021:

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

7. Cash and cash equivalents

	12/31/2022	12/31/2021
Banks	**27,553**	36,734
Short-term investments	**580,682**	193,125
	608,235	229,859

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 2022 (between 80% and 105% in 2021.

(In thousands of reais - R$, unless otherwise stated)

8. Financial investment earmarked for loans

	12/31/2022	12/31/2021
Financial investment earmarked for loans	**1,285**	2,007
	1,285	2,007

The financial investment refers to a guarantee of the ICMS financing granted to the Company as a government grant. The amount can only be used to fully repay the final installments of the financing.

9. Trade accounts receivable

	12/31/2022	12/31/2021
Trade accounts receivable	**1,601,912**	1,402,057
(-) Allowance for expected credit losses	**(12,613)**	(11,008)
(-) Provision for returns	**(20,236)**	(8,905)
Trade accounts receivable, net	**1,569,063**	1,382,144

At December 31, 2022 and 2021, trade accounts receivable mature as follows:

	12/31/2022	12/31/2021
Falling due	**1,395,255**	1,215,425
Overdue:		
Less than three months	**167,042**	93,517
Between 3 and 6 months	**25,312**	8,783
Between 6 and 12 months	**8,389**	5,461
More than 1 year	**5,914**	78,871
	1,601,912	1,402,057

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

	12/31/2022		12/31/2021	
	Allowance for expected credit losses	Provision for returns	Allowance for expected credit losses	Provision for returns
Opening balance	**(11,008)**	**(8,905)**	(15,632)	-
Recognition of provision	**(43,700)**	**(11,331)**	(1,139)	(8,905)
Reversal of provision	**41,222**	**-**	5,443	-
Notes effectively written off	**873**	**-**	320	-
Closing balance	**(12,613)**	**(20,236)**	(11,008)	(8,905)

(In thousands of reais - R$, unless otherwise stated)

9. Trade accounts receivable (Continued)

Trade accounts receivable are denominated in the following currencies:

	12/31/2022	12/31/2021
Reais	**1,580,716**	1,384,216
Euro	**5,156**	6,422
US dollars	**16,040**	11,419
	1,601,912	1,402,057

10. Inventories

	12/31/2022	12/31/2021
Finished products	**344,857**	345,356
Raw material	**777,055**	717,323
Products in process	**182,095**	180,241
Packaging and other materials	**276,026**	79,414
Imports in transit	**75,298**	47,389
Advances to suppliers	**47,444**	57,542
Provision for returns	**9,686**	3,306
Provision for obsolescence	**(129,595)**	(80,017)
	1,582,866	1,350,554

The consumption of raw materials, consumables and changes in the balance of inventories of products in process and finished products included in the “Cost of sales” totaled R$1,380,920 at December 31, 2022 (R$1,178,679 at December 31, 2021).

Changes in provisions as of December 31, 2022 and 2021 are presented below:

	12/31/2022		12/31/2021	
	Provision for obsolescence	Provision for returns	Provision for obsolescence	Provision for returns
Opening balance	**(80,017)**	**3,306**	(54,642)	-
Recognition of provision	**(125,178)**	**6,380**	(72,522)	3,306
Reversal of provision	**12,205**	**-**	44,153	-
Write-off	**63,395**	**-**	2,994	-
Closing balance	**(129,595)**	**9,686**	(80,017)	3,306

(In thousands of reais - R$, unless otherwise stated)

11. Taxes recoverable

	12/31/2022	12/31/2021
Contribution Tax on Gross Revenue for Social Integration Program (PIS) and Contribution Tax on Gross Revenue for Social Security Financing (COFINS)	**744,862**	790,555
State VAT (ICMS)	**342,666**	321,795
IRPJ and CSLL	**45,019**	69,114
Other	**48,770**	61,587
	1,181,317	1,243,051
Current	**727,486**	604,028
Noncurrent	**453,831**	639,023
	1,181,317	1,243,051

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 abovementioned companies calculated the respective amounts as of 2006. In 2022, based on the opinion and report prepared by the legal advisors, the companies measured the amounts and recorded a total of R$4,527 in 2021, of which R$4,422 referring to PIS and COFINS, accounted for in Other operating income, and R$105 to interest and monetary restatement (R$323,851 in 2021, 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.

12. Other receivables

	12/31/2022	12/31/2021
Advances to suppliers	**9,733**	12,291
Advances to related parties (Note 27)	**5,114**	7,642
Advances to employees	**16,176**	16,189
Accounts receivable from sublease	**-**	6,587
Insurance claim payment	**5,267**	4,288
Prepaid expenses with institutional media	**6,507**	1,521
Other	**14,012**	17,040
	56,809	65,558
Current	**50,179**	60,482
Noncurrent	**6,630**	5,076
	56,809	65,558

(In thousands of reais - R$, unless otherwise stated)

13. 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, 2021	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)
Book value as at December 31, 2021	128,753	48,443	1,054	-	178,250
December 31, 2022					
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
December 31, 2021	128,753	48,443	1,054	-	178,250
Acquisitions and remeasurements	**131,561**	**10,498**	**6,308**	**-**	**148,367**
Write-offs	**(3,246)**	**(1,341)**	**-**	**-**	**(4,587)**
Depreciation	**(33,687)**	**(25,701)**	**(2,332)**	**-**	**(61,720)**
Book value as at December 31, 2022	**223,381**	**31,899**	**5,030**	**-**	**260,310**
December 31, 2022					
Cost	**282,415**	**139,556**	**10,587**	**10,494**	**443,052**
Accumulated depreciation	**(59,034)**	**(107,657)**	**(5,557)**	**(10,494)**	**(182,742)**
	223,381	**31,899**	**5,030**	**-**	**260,310**

b) Lease liabilities

	Land and buildings	Vehicles and machinery	Furniture, fixtures, and equipment	Data Center	Total
January 1, 2021	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
January 1, 2022	137,587	47,649	1,694	-	186,930
Acquisitions and remeasurements	**131,561**	**10,498**	**6,308**	**-**	**148,367**
Interest incurred	**28,082**	**2,652**	**573**	**-**	**31,307**
Write-off	**(3,969)**	**(3,359)**	**-**	**-**	**(7,328)**
Payments	**(48,655)**	**(29,360)**	**(2,697)**	**-**	**(80,712)**
Book value as at December 31, 2022	**244,606**	**28,080**	**5,878**	**-**	**278,564**
			Current		**67,209**
			Noncurrent		**211,355**

(In thousands of reais - R$, unless otherwise stated)

14. Property, plant and equipment

	Land and buildings	Vehicles and machinery	Furniture, fixtures, and equipment	Work in progress (*)	Aircraft	Total
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 as at December 31, 2021	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

	Land and buildings	Vehicles and machinery	Furniture, fixtures, and equipment	Work in progress (*)	Aircraft	Total
December 31, 2021						
Opening balance	375,548	489,567	36,341	179,312	179,868	1,260,636
New combined entities	**620**	**1,580**	**1,727**	**6,018**	**-**	**9,945**
Acquisitions	**164**	**7,108**	**5,377**	**201,408**	**-**	**214,057**
Write-offs, net	**-**	**(570)**	**(29)**	**(1,050)**	**-**	**(1,649)**
Transfers	**15,975**	**38,939**	**10,218**	**(65,665)**	**-**	**(533)**
Translation adjustments for presentation (**)	**(291)**	**(259)**	**56**	**-**	**-**	**(494)**
Depreciation	**(7,441)**	**(34,733)**	**(6,097)**	**-**	**(11,580)**	**(59,851)**
Net book balance as at December 31, 2022	**384,575**	**501,632**	**47,593**	**320,023**	**168,288**	**1,422,111**
December 31, 2022						
Cost	**493,169**	**820,938**	**99,079**	**320,023**	**231,715**	**1,964,924**
Accumulated depreciation	**(108,594)**	**(319,306)**	**(51,486)**	**-**	**(63,427)**	**(542,813)**
	384,575	**501,632**	**47,593**	**320,023**	**168,288**	**1,422,111**

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

(**) Amounts referring to translation differences of Monteresearch, headquartered in Italy.

15. Loans, financing and debentures

	Interest rate	Maturity	12/31/2022	12/31/2021
Debentures (a)	DI + 1.4% p.a.	May 2027	**224,757**	-
BNDES	(d)	Mar/2026 to Feb/2027	**91,017**	111,513
FINEP	(c)	Apr/2023	**4,090**	16,235
Banco Regional de Brasília - ICMS financing (e)	25% of INPC (i)	Dec/2031	**8,054**	8,055
FINAME	2.50% p.a and 3% p.a	Jan/2023 and Feb/2023	**11**	122
Bradesco 4131 (b)	1.44% p.a.	-	**-**	264,591
			327,929	400,516
Current			**31,242**	297,768
Noncurrent			**296,687**	102,748

15. Loans, financing and debentures (Continued)

(a) On May 6, 2022, EMS carried out its third issue of debentures in a single series of 220,000 nonprivileged unsecured nonconvertible debentures with a par value of R$1,000.00 (one thousand Reais), maturing on May 6, 2027. Payment of the par value will be in three installments, the first at the end of the third year from the issue date (May 6, 2025), the second installment at the end of the fourth year from the issue date (May 6, 2026) and the third installment at the end of the fifth year from the issue date, upon its final maturity, with remuneration of 100% of the DI + 1.4% p.a. paid semi-annually.

(b) 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 was settled upon maturity.

(c) 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. EMS has a letter of guarantee in the total amount of R$15,174 for coverage of the referred to contract.

(d) 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$4,062, subject to interest of TJLP + 1.75% and 2.25% p.a. and final payment on March 15, 2026. (R$5,271 in 2021)

(ii) Storeroom Reconstruction Contract, financing granted by the National Bank for Economic and Social Development (BNDES), up to R$66,493, divided into two subloans according to the rendering of accounts.

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 balance is R$34,629, subject to interest of IPCA* 1.36% p.a. * 1.79% p.a., and final payment on February 15, 2027 (R$42,297 in 2021).

Subloan "B" - R$38,080 for the implementation of packaging lines in the EMS production complex, located in Hortolândia. The outstanding balance is R$31,864, subject to interest of IPCA* 2.16% p.a. * 1.79% p.a., and final payment on February 15, 2027 (R$38,946 in 2021).

(iii) Oncology Injectables Contract, financing granted by the National Bank for Economic and Social Development (BNDES), up to R$20,462, 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 balance is R$15,957, subject to interest of IPCA* 1.36% p.a. * 1.79% p.a., and final payment on February 15, 2027 (R$19,491 in 2021).

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 balance is R$4,505, subject to interest of IPCA* 2.16% p.a. * 1.79% p.a., and final payment on February 15, 2027 (R$5,508 in 2021).

(e) 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$1,285 as at December 31, 2022 (R$2,007 in 2021).

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 and 2022.

The loan, financing and debenture agreements have nonfinancial covenants whose noncompliance may result, at the discretion of the respective creditors, after notification, in the early maturity of the respective debts. At December 31, 2022, the Group is compliant with the contractual conditions in the aforementioned agreements.

(In thousands of reais - R$, unless otherwise stated)

15. Loans, financing and debentures (Continued)

The loans and financing recorded in current and noncurrent liabilities as at December 31, 2022 mature as follows:

	Amount
2022	31,242
2023	33,038
2024	106,371
2025 onwards	157,278
	327,929

Reconciliation between changes in financial position and cash flows from financing activities at December 31, 2022 are described below:

	12/31/2022	12/31/2021
Opening balance	**400,516**	403,098
Items in cash flows from financing activities:		
Funds raised from loans, financing and debentures	**305,415**	333,772
Repayment of loans - principal	**(335,887)**	(355,534)
Exchange difference on repayment of loans and financing	**(26,451)**	14,368
Total cash flows used in financing activities	**343,593**	395,704
Other items		
Interest expense	**32,699**	21,972
Payments of interest and exchange differences	**(48,363)**	(17,160)
Total other items	**(15,664)**	4,812
Balance at December 31, 2022	**327,929**	400,516

16. Trade payables

	12/31/2022	12/31/2021
Foreign suppliers	**305,431**	268,974
Domestic suppliers	**273,770**	176,845
Domestic suppliers – reverse factoring (i)	**71,206**	16,652
Service suppliers	**101,510**	68,689
	751,917	531,160

(i) The Group offers its suppliers, upon signing the terms of enrollment, the option to anticipate their receivables with a discount on the face value. This operation can be carried out, at the supplier's discretion, through agreements with financial institutions. In accordance with these agreements, the financial institutions advance a certain amount to the supplier and receive, on the due date, the amount due directly from the company. The decision to elect this operation is solely and exclusively the supplier's. The agreement does not change the characteristics of the commercial conditions, terms and prices previously established between the Company and its supplier, and, for that reason, the balances payable were kept under "Trade payables". In this operation, the supplier elects to anticipate its transaction, as intermediated by the company, thus reducing its finance costs, since the financial institution takes into consideration the credit risk of the Group (the buyer). This operation does not incur finance costs for the Group, and the amount of the operation was fully carried out with Banco Itaú S/A.

(In thousands of reais - R$, unless otherwise stated)

17. Payroll and related charges

	12/31/2022	12/31/2021
Vacation payable	**61,206**	46,418
Profit sharing	**80,264**	44,872
Social charges on vacation pay and bonuses	**48,838**	46,445
Other	**4,640**	2,686
	194,948	140,421

18. 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:

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	
	12/31/2022	12/31/2021	12/31/2022	12/31/2021	12/31/2022	12/31/2021
Tax and civil claims (i)	**124,575**	90,575	**(22,615)**	(33,015)	**101,960**	57,560
Labor and social security claims (ii)	**151,691**	129,203	**(57,989)**	(21,863)	**93,702**	107,340
	276,266	219,778	**(80,604)**	(54,878)	**195,662**	164,900

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

	12/31/2022	
	Provision for losses on legal proceedings	Judicial deposits
Opening balance	**219,778**	**54,878**
Recognition of provision	**96,574**	**9,053**
Monetary restatement	**16,049**	**16,673**
Reversal/remeasurement of proceedings	**(55,376)**	**-**
Write-off/payment of proceedings	**(17,989)**	**-**
New combined entities	**17,688**	**-**
Reclassification of discontinued operations	**(458)**	**-**
Closing balance	**276,266**	**80,604**

(In thousands of reais - R$, unless otherwise stated)

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

a) Breakdown

iv) *Civil and tax proceedings*

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

v) *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.

vi) *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:

	12/31/2022	**12/31/2021**
Civil (c)	**948,713**	641,480
Tax - IR/CSLL (a.1)	**1,732,746**	1,701,498
Labor	**232,143**	155,049
Tax – Other (a.2) and (b)	**610,925**	374,879
	3,524,527	2,872,906

(a.1) 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." 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).

18. 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.2) 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, 2022, the updated amount is R$282,408 (R$257,556 in 2021).

(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.

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.

(In thousands of reais - R$, unless otherwise stated)

19. Income and social contribution taxes (Continued)

a) Deferred income and social contribution taxes (Continued)

The changes in and sources of deferred income and social contribution taxes at December 31, 2022 and 2021 are as follows:

	Balance at 12/31/2021	Business combination	Recognized in P&L	Balance at 12/31/2022
Provision for tax recovery	(87,820)	15	(15)	(87,820)
Provision for useful life recorded for corporate and tax purposes	(38,252)	-	(52,087)	(90,339)
Provision for items billed and not shipped (cut-off)	40,740	-	30,053	70,793
Provision for obsolescence	30,012	334	13,695	44,041
Provision for losses on legal proceedings	74,828	4,648	16,162	95,638
Provision for impairment losses on receivables	3,696	83	7,340	11,119
Provision for profit sharing	15,275	217	11,798	27,290
Provision for free samples	7,987	-	8,139	16,126
Provision for leased vehicles	456	26	371	853
Provision for deferred exchange differences for tax purposes	3,376	-	(7,020)	(3,644)
Leases CPC 06/IFRS 16	11,067	-	4,765	15,832
Tax loss	39,959	315	(31,688)	8,586
Fair value – Multilab investment	(8,935)		(402)	(9,337)
Gain on bargain purchase - Multilab	(17,406)		-	(17,406)
Other provisions	2,089	303	52,313	54,705
	77,072	5,941	53,424	136,437
Deferred income and social contribution taxes - assets	127,669			193,214
Deferred income and social contribution taxes - liabilities	(50,597)			(56,777)
	77,072			136,437

	Balance at 31/12/2020	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 income	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 - R$, unless otherwise stated)

19. Income and social contribution taxes (Continued)

b) Current income and social contribution taxes

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

	12/31/2022	12/31/2021
Income before income and social contribution taxes	**2,433,988**	2,241,871
Tax incentives - ICMS	**(330,190)**	(272,790)
Offsetting of tax losses (30%)	**(98,117)**	(11,240)
IRPJ and CSLL at local rates (34%)	**(681,932)**	(665,666)
Equity pickup	**-**	882
Technological innovation (R&D) Law No. 11196/05 (EMS)	**38,997**	11,991
75% reduction in income tax from grants (Novamed)	**222,421**	215,889
Tax loss recognized in the year (Multilab)	**(31,688)**	39,959
Reinvestment	**12,472**	13,667
Other permanent additions/exclusions	**14,586**	(29,591)
IRPJ and CSLL taxes on the statement of profit or loss	**(425,144)**	(412,869)
Current income and social contribution taxes	**(478,566)**	(402,906)
Deferred income and social contribution taxes	**53,422**	(9,963)
IRPJ and CSLL taxes on the statement of profit or loss	**(425,144)**	(412,869)
Effective rate	**17.50%**	18.45%

c) Income and social contribution taxes payable

	12/31/2022	12/31/2021
IRPJ payable	**75,453**	73,765
CSLL payable	**49,911**	31,119
	125,364	104,884

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

	12/31/2022	12/31/2021
Opening balance	**104,884**	47,558
(+) Provision for current IR/CS in the year	**478,566**	402,907
(-) Amounts offset against federal taxes	**(228,366)**	(144,401)
(-) Amounts prepaid/paid in the year	**(229,720)**	(201,180)
Closing balance	**125,364**	104,884

(In thousands of reais - R$, unless otherwise stated)

20. Taxes in installments

	12/31/2022	12/31/2021
Installment payment - Law No. 11941/09 (i)	**33,778**	40,832
ICMS installment payment (ii)	**3,918**	3,918
ICMS installment payment – Insurance claim (iii)	**7,611**	15,221
	45,307	59,971
Current	**32,125**	28,222
Noncurrent	**13,182**	31,749

(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. 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. The principal amount of the consolidated debt was R$23,922 (of EMS S.A.) and R$1,193 (of Sigma Pharma).

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. 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.

The balance of taxes in installments at December 31, 2022 and 2021 is shown below:

	12/31/2022	12/31/2021
Principal	**28,786**	39,761
Interest	**16,521**	20,210
	45,307	59,971

(In thousands of reais - R$, unless otherwise stated)

21. Other accounts payable

	12/31/2022	12/31/2021
Advances from customers	**34,243**	35,556
Advances from related parties	**44,840**	4,840
Other accounts payable to shareholders	**8,925**	-
Provision for land payable	**12,061**	12,342
Provisions for third-party services	**40,574**	19,552
Provision for expenses with employees	**7,390**	9,068
Provision for commissions and bonuses	**99,098**	43,082
Provision for leased vehicles	**7,143**	6,823
Provision for expenses with marketing and promotions	**23,491**	707
Other accounts payable and other provisions	**17,912**	19,421
	295,677	151,391
Current	**232,691**	137,196
Noncurrent	**62,986**	14,195

NC Farma Group

Notes to the combined financial statements (Continued)
December 31, 2022 and 2021
(In thousands of reais - R$, unless otherwise stated)

22. Equity

a) Capital

Subscribed and paid-in capital is R$1,408,937 as at December 31, 2022 (R$1,399,787 as at December 31, 2021), held as follows:

	31,12,2022											
Shareholder/Member	**EMS S. A.**	**Germed**	**Lafiman**	**Snellog**	**Novamed**	**Multilab**	**EMS Sigma**	**Legrand**	**Luxbiotech**	**Monteresearch**	**RioBio Pharmaceuticals**	**Total**
EMS S.A.	-	-			-	-	7,662,451	136,464	97,516,851	90,000	3,308	105,409,074
NC Participações S.A.	19,800,000	10,272,741	1,000,000	8,150,000	-	-	77,398	1,379	206,158	-	-	39,507,676
Germed Farmacêutica LDA.	200,000	-	-	-	-	-	-	-	-	-	-	200,000
Novamed Fabricação de Produtos Farmacêuticos Ltda. (*)	-	-	-	-	-	190,238,099	-	-	-	-	-	190,238,099
Carlos Eduardo Sanchez	-	-	-	-	875,847,771	-	-	-	-	-	-	875,847,771
Leonardo Sanchez Secundino	-	-	-	-	145,974,629	-	-	-	-	-	-	145,974,629
Marcus Vinicius Sanchez Secundino	-	-	-	-	145,974,629	-	-	-	-	-	-	145,974,629
	20,000,000	10,272,741	1,000,000	8,150,000	1,167,797,029	190,238,099	7,739,849	137,843	97,723,009	90,000	3,308	1,503,151,878

(*) On June 23, 2022, Novamed acquired the remaining 12.1% interest of Multilab's noncontrolling shareholders, corresponding to 22,847,595 shares, of which it already held 87.9%, corresponding to 167,390,504 shares, thus becoming Multilab's sole shareholder.

	12/31/2021									
Shareholder/ Member	**EMS S. A.**	**Germed**	**Novamed**	**Multilab**	**EMS Sigma**	**Legrand**	**Luxbiotech**	**Monteresearch**	**RioBio Pharmaceuticals**	**Total**
EMS S.A.	-	-	-	-	7,662,451	136,464	97,516,851	90,000	3,308	105,409,074
NC Participações S.A.	19,800,000	10,272,741	-	-	77,398	1,379	206,158	-	-	30,357,676
Germed Farmacêutica LDA.	200,000		-	-	-	-	-	-	-	200,000
Novamed Fabricação de Produtos Farmacêuticos Ltda. (*)	-	-	-	190,238,099	-	-	-	-	-	190,238,099
Carlos Eduardo Sanchez	-	-	875,847,771	-	-	-	-	-	-	875,847,771
Leonardo Sanchez Secundino	-	-	145,974,629	-	-	-	-	-	-	145,974,629
Marcus Vinicius Sanchez Secundino	-	-	145,974,629	-	-	-	-	-	-	145,974,629
	20,000,000	10,272,741	1,167,797,029	190,238,099	7,739,849	137,843	97,723,009	90,000	3,308	1,494,001,878

22. 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.

Transactions between shareholders

On June 23, 2022, Novamed acquired the remaining 12.01% interest of Multilab’s noncontrolling shareholders. The fair value of the acquisition totaled R$138,432 which, matched against the book value of R$56,989, resulted in a negative capital reserve of R$81,443.

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. The amount recognized as a tax incentive reserve at December 31, 2022 is R$593,863 (R$488,699 at December 31, 2021), of which R$372,332 refers to ICMS tax incentives and R$228,472 to the incentive that reduces by 75% the amount of income and social contribution taxes. In addition, a supplementary amount of R$5,490 was recorded referring to revaluations carried out for 2021.

22. Equity (Continued)

c) Income reserve (Continued)

Tax incentive reserve (Continued)

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. No benefits in connection with this matter were recognized in 2022.

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, 2022 and 2021, the combined entity 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 20% of capital, as determined by article 193 of Law No. 6404/86.

Retained profits

The income reserve is recognized with the balance of net income for December 31, 2022 and 2021 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) Equity adjustment

At the time of the business combination, there are exchange rate differences on the assets, liabilities and P&L of subsidiaries abroad with a functional currency different from the Group's functional currency. That difference is recognized directly in equity. In 2022, the amount of R$6,968 was recognized under assets referring to the effect of translation differences (R$519 in 2021).

(In thousands of reais - R$, unless otherwise stated)

22. Equity (Continued)

e) Dividends and allocation of P&L

Changes in dividends payable:

	12/31/2022	12/31/2021
Initial balance for the year	**595,813**	166,058
(+) Supplemental dividends payable, as approved in meetings	**1,157,064**	1,609,110
(+) Mandatory minimum dividend	**67,651**	64,353
(+) New combined entities	**11,662**	-
(-) Payments	**(1,283,375)**	(1,008,804)
(-) Prepaid dividends	**-**	(234,904)
(=) Balance at end of year	**548,815**	595,813

23. Net operating revenue

	12/31/2022	12/31/2021
Gross sale of products, less commercial rebates	**8,090,708**	7,277,335
Sales taxes	**(942,399)**	(1,322,673)
Sales returns	**(377,601)**	(240,764)
Net operating revenue	**6,770,708**	5,713,898

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.

(In thousands of reais - R$, unless otherwise stated)

24. Costs and expenses broken down by nature

	12/31/2022	12/31/2021
Raw material and supplies	**(1,380,920)**	(1,178,679)
Payroll and related charges	**(979,484)**	(776,708)
Third-party services - legal entities	**(366,490)**	(318,320)
Social security costs	**(248,671)**	(178,348)
Advertising costs	**(186,654)**	(168,576)
Transportation expenses	**(133,096)**	(187,424)
Samples	**(167,971)**	(133,345)
Employee benefits provided for under the legislation	**(104,855)**	(64,217)
Other employee benefits	**(112,918)**	(171,081)
Travel/lodging and meals	**(59,759)**	(36,792)
Cleaning and office supplies	**(89,291)**	(72,730)
Profit sharing plan	**(87,724)**	(40,819)
Third-party services - maintenance and repair	**(73,456)**	(68,988)
Depreciation, amortization and impairment charges	**(65,691)**	(66,387)
Amortization charges – right of use	**(52,119)**	(43,114)
Electricity, water and telephone	**(34,751)**	(31,388)
Fuel and lubricants	**(35,894)**	(29,172)
Provision for losses on legal proceedings	**(42,120)**	(64,496)
Sales commissions	**(27,961)**	(16,201)
Provision for returns	**(6,380)**	(3,306)
Provision for impairment losses on receivables	**(2,478)**	(4,624)
Provision for inventory obsolescence	**(112,973)**	(25,375)
Other expenses	**19,639**	(9,469)
	(4,352,017)	(3,689,559)
Cost of sales	**(2,301,809)**	(1,825,274)
Selling expenses	**(523,109)**	(507,512)
Administrative expenses	**(1,527,099)**	(1,356,773)
	(4,352,017)	(3,689,559)

25. Other operating income, net

	12/31/2022	12/31/2021
Other expenses		
Fines, taxes and charges	**(139,792)**	(112,355)
Write-off of investment	**-**	(70,892)
Other expenses	**(10,151)**	(14,967)
	(149,943)	(198,214)
Other income		
Tax recovery (Note 11)	**100,381**	346,045
Gain on write-off of investments	**5,452**	-
Other income	**44,475**	44,630
	150,308	390,675
	365	192,461

(In thousands of reais - R$, unless otherwise stated)

26. Finance income (costs), net

	12/31/2022	12/31/2021
Finance income		
Gains on exchange differences and monetary variation	**189,820**	229,456
Short-term investment yield	**67,365**	10,444
Interest on trade notes receivable	**30,932**	73,383
Other income	**19,135**	11,291
Total finance income	**307,252**	324,574
Finance costs		
Interest on loans, financing and debentures	**(43,279)**	(33,413)
Losses on exchange differences and monetary variation	**(210,630)**	(253,754)
Interest payable on leases	**(31,307)**	(15,484)
Other expenses	**(7,104)**	(4,928)
Total finance costs	**(292,320)**	(307,579)
Finance income (costs), net	**14,932**	16,995

27. Balances and transactions with related parties

Significant asset and liability balances at December 31, 2022 and 2021 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:

a) Statement of financial position balances at year-end

	Accounts receivable		Trade payables	
	12/31/2022	12/31/2021	12/31/2022	12/31/2021
Lafiman Distribuidora de Medicamentos Ltda.	**-**	36,294	**-**	-
Snellog Armazens Gerais e Logística Ltda	**-**	290	**-**	15,522
Instituto Vita Nova	**-**	-	**960**	2,267
Underskin LLC	**4,489**	-	**-**	-
Galenika	**304**	-	**5,662**	-
Other	**10,137**	5,976	**5,678**	5,752
	14,930	42,560	**12,300**	23,541

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 - R$, unless otherwise stated)

27. Balances and transactions with related parties (Continued)

a) Statement of financial position balances at year-end (Continued)

	Other accounts receivable and advances		Other accounts payable and advances	
	12/31/2022	**12/31/2021**	**12/31/2022**	**12/31/2021**
Instituto Vita Nova	**627**	3,539	**-**	-
Innoveren Pharma S.A	**-**	-	**4,840**	4,840
NC Investimentos Ltda	**847**	-	**-**	-
Germed Farmaceutica LDA	**2,875**	2,875	**-**	-
Other	**765**	1,228	**-**	-
	5,114	7,642	**4,840**	4,840

b) Dividends payable

	Dividends payable	
	12/31/2022	**12/31/2021**
Global Energy	**7,733**	7,733
Germed Ltd	**25,699**	25,004
Saltriver Empreendimentos e Participações Ltda.	**7,733**	8,043
Saltmont Empreendimentos e Participações Ltda.	**46,402**	46,724
NC Participações S.A.	**449,573**	508,309
NC Investimentos Ltda.	**11,662**	-
	548,802	595,813

c) Intercompany loans

Multilab had a balance of intercompany loans, with an interest rate of 2%, maturing in 2024, which were settled before the due date. Changes in intercompany loans are as follows:

	2022	**2021**
Balance at beginning of year	**10,294**	15,256
Provision for interest	**144**	(134)
Payment of principal	**(10,286)**	(4,571)
Payment of interest	**(152)**	(257)
Balance at December 31	**-**	10,294

d) Key management personnel compensation

Compensation paid and payable to key management personnel, including salaries and charges, profit sharing and other benefits, represents 9.86% of payroll expenses for the year ended December 31, 2022 (8.84% at December 31, 2021).

28. Insurance

The Group 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$900,000 in 2022 (R$842,000 in 2021), and R$10,000 for third-party liability in 2022 and 2021.

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.

29. Events after the reporting period

At a plenary session held on February 8, 2023, the Federal Supreme Court ("STF") considered, by unanimous vote, that a final and unappealable decision, the so-called *res judicata,* on taxes paid on a continuous basis, loses its effect in case the STF hands down a decision contrary to the previous one. This is due to the fact that, according to the laws and regulations as well as case law, even if a decision has become final and unappealable (res judicata), it has its own effects whilst the factual and legal framework that justifies it endures. In case of changes, the effects of a previous decision may not be produced.

Management assessed and concluded that the Group has no lawsuits that relate to the decision taken by the STF, therefore, no effects are expected on its combined financial statements.